ANNUAL REPORT AND FINANCIAL STATEMENTS 2011

Poised for growth.

African Banking Corporation Ltd.

THANK YOU

BEST BANK IN KENYA
for banks with total assets of between Kes. 10B and Kes. 40B

BEST BANK IN SME BANKING
2nd runners up

BEST BANK IN PRODUCT INNOVATION
2nd runners up

ABC Bank stands tall at the Think Business Banking Awards 2012!

We thank you for your goodwill and support, which enables us to rise to new heights with every passing year. We reiterate our commitment to meeting your needs, surpassing your expectations, growing existing relationships and developing new ones.

Asante sana!

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WHO WE ARE

ABC Bank is your one-stop financial shop offering you innovative financial solutions across Kenya and Uganda.

Our Mission

To maintain long term relationships with our customers through innovative value added financial solutions that help them meet their personal and business objectives.

Our Vision

To be among the top ten ranked banks in the country offering a vast array of superior financial products that are able to create value for all stakeholders through a highly motivated staff force who are performance driven.

Our Core Values

Customer Relationships

Our customers, be they personal, business or corporate, are our business partners. We strive to be an understanding, friendly, flexible and professional bank in meeting our customer needs. We build our future with them through leadership in value, quality and price.

Professionalism

In the service of our customers we are committed to the highest standards of professionalism, pursuing innovation, deploying imagination, being open to new ideas and acting decisively and consistently. We are determined to deliver outstanding quality so that our relationships with our customers will be close and long lasting.

Teamwork

We care for our people. We encourage open communication and personal development and create opportunities based on performances. We treasure creativity and initiative and champion teamwork and empowerment.

Continuous Improvement

We recognize that there is always a way to improve in every aspect of our corporation and we pride ourselves on our relentless pursuit of improving the quality of everything done in ABC Bank.

Kenya

Uganda

abc BANK

abc CAPITAL LTD
•MEMBER OF THE NSE SINCE 1954•

abc INSURANCE

abc CAPITAL BANK

ABC Capital Ltd.

ABC Capital has been a member of the Nairobi Securities Exchange since its inception in 1954 and therefore shares a rich heritage in the fortunes of the leading stock exchange in the East African region.

We offer innovative management expertise delivered by a dedicated team that upholds ethical values.

ABC Insurance Brokers Ltd.

ABC Insurance is regulated by the Insurance Regulatory Authority, is a member of the African Trade Insurance Agency (ATI) panel of approved insurance brokers and a member of the Association of Insurance Brokers of Kenya (AIBK).

We offer a wide range of insurance products with competitive pricing and exceptional customer service.

ABC Capital Bank Ltd. - Uganda

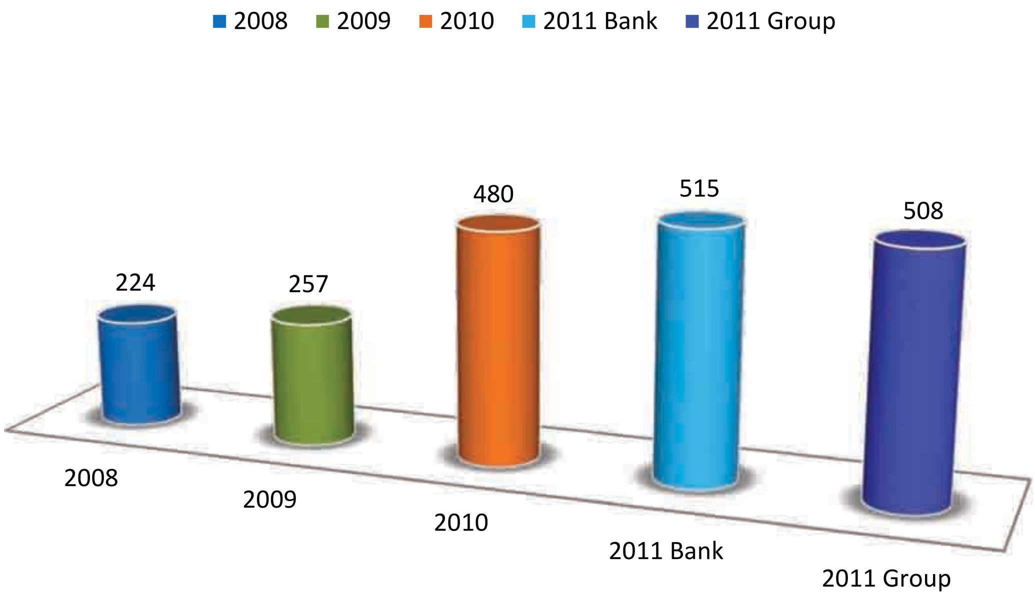
ABC Capital Bank - Uganda offers the same quality of award-winning service in Kampala - Uganda with two branch located at:

- Pilkington Road, Plot 4, Colline House and
- Luwum Street, 1st Floor, Avemar Shopping Center

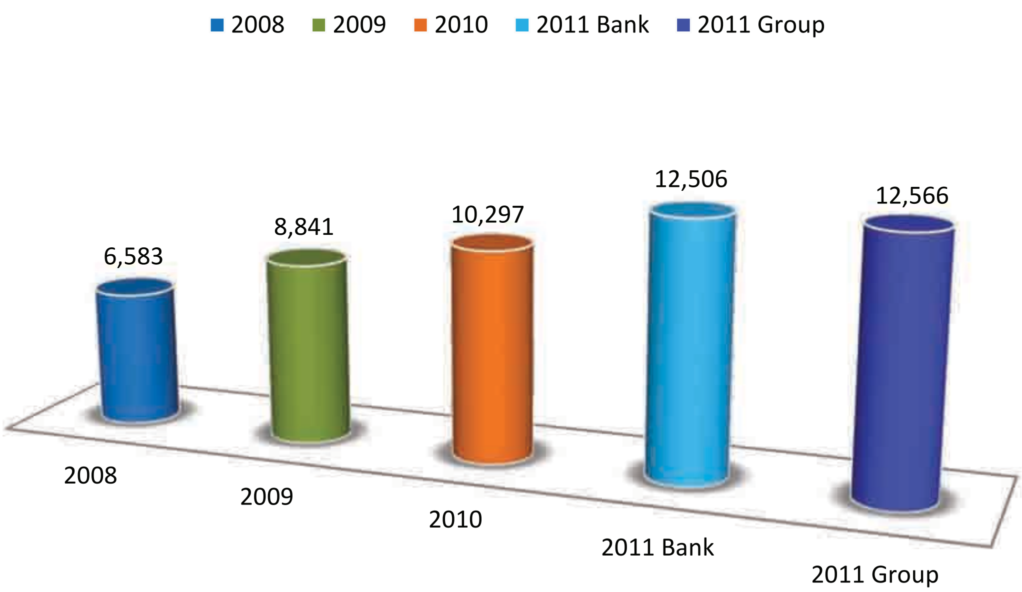
We offer exceptional customer service so that our relationships with our customers will be **close and long lasting.**

KEY PERFORMANCE HIGHLIGHTS

Profitability in Millions (Kenya Shillings)

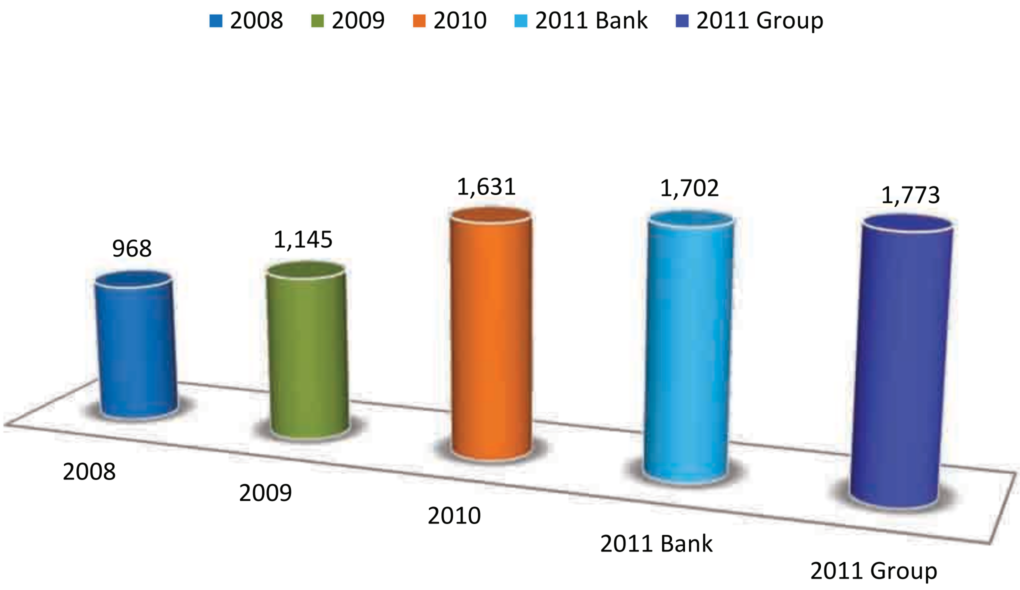


Balance Sheet in Millions (Kenya Shillings)

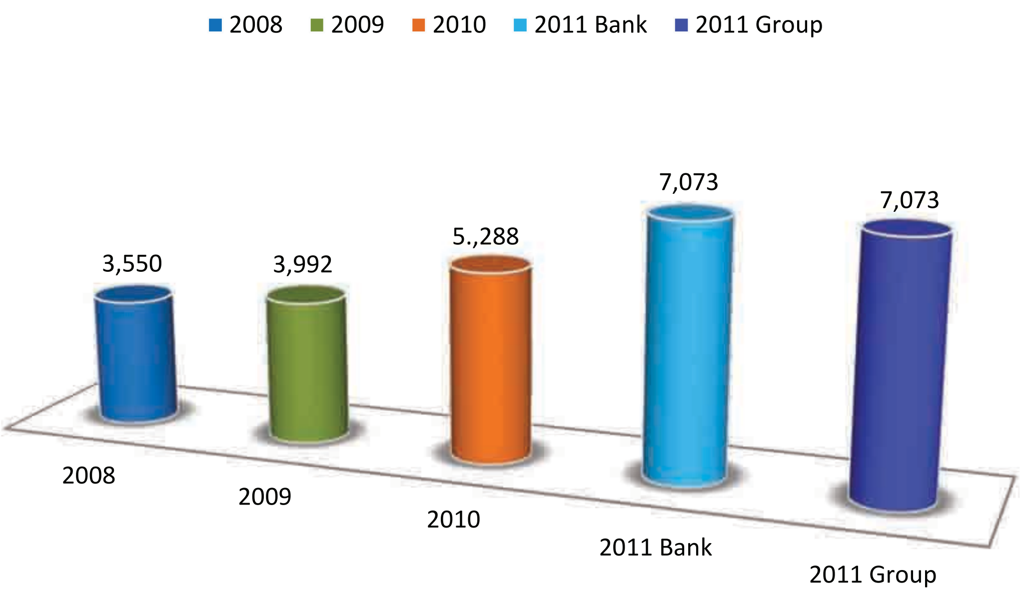


KEY PERFORMANCE HIGHLIGHTS

Shareholder Funds in Millions (Kenya Shillings)



Net Loans and Advances in Millions (Kenya Shillings)



KEY EVENTS

January to June 2011

1 ABC Bank Chairman, Mr. Ashraf Savani receives the Lifetime Achievement Award in April for his contribution to the Kenya banking industry for over 30 years.

2 ABC Group sponsors the launch of the African Cancer Foundation (ACF) in July.

3 ABC Group holds its annual Youngstar Parties in April for its Youngstar account holders countrywide.

4 ABC Group sponsors the annual Law Society of Kenya (LSK) Conference in May.

5

6

7

July to December 2011

5 ABC Bank sponsors the annual Baringo Half Marathon in November.

6 ABC Bank hold its bi-annual Customer Focus Week in December.

7 ABC Bank hosts the members of the Kenya Association of Private Enterprises (KAPEA) to a dinner in September.

8 ABC Bank secures a Euro 7 million loan facility from European Investment Bank to lend to SMEs.

9 Over 70 golfers congregate at the Eldoret Golf Club in September for the fifth annual ABC Group Golf Day.

8

9

CORPORATE SOCIAL RESPONSIBILITY

ABC Bank, as a good corporate citizen, upholds the tenets of a socially responsible organization, always making conscious efforts to ensure its operations benefit its immediate environment and the people who live in it.

Through strategic partnerships, ABC Bank has given back to society by participating in projects with a long-term and wide impact on society this year.

ABC Bank has supported ethical and soundly run initiatives in areas, including community development, education, health and sports, during the year. Here is a summary of the Corporate Social Responsibility (CSR) projects the Bank has participated in the year 2011.

John Ngoru, ABC Group Head of HR, signs the Golden Book where all donations to the Learning Resource Centre are recorded at the Catholic University of Eastern Africa.

The Catholic University Learning Resource Centre

ABC Bank made a Kshs. 500,000 donation towards the construction of a Learning Resource Centre (LRC) at the Catholic University of Eastern Africa (CUEA).

This is in recognition of the difference the project will make to education in the Eastern Africa region and beyond, in the years to come.

The University, which is situated in Karen-Lang'ata, at the outskirts of Nairobi, seeks to promote excellence in scientific research, quality teaching, and community service for the purpose of enhancing human dignity.

Through the LRC, it aims to deliver high quality learning resources to support the achievement of excellence in research, learning and teaching across the University as well as support the University in its community service within the Eastern African Region and beyond.

The LRC is meant to provide a high quality student learning environment. This is expected to support independent and resources-based learning, as students seek to develop transferable skills sought by employers-knowing how to learn, how to solve problems, how to communicate effectively, how to use technology, how to work with others and how to find and handle information.

Launch of the Africa Cancer Foundation

ABC Bank has been at the forefront in supporting efforts aimed at mitigating the impact of cancer, which is ranked third as a cause of death in Kenya after infectious diseases and cardiovascular diseases.

It is estimated that the annual incidence of cancer is about 28,000 cases and the annual mortality to be over 22,000; 7 per cent of total national mortality every year.

In July 2011, ABC Bank contributed Kshs. 350,000 towards the launch of the Africa Cancer Foundation (ACF), which went towards printing awareness materials to be distributed to all major hospitals and health centres across the country.

The Foundation is a brainchild of Professor Anyang Nyong'o, the Minister for Medical services who was diagnosed with cancer in 2010.

As a cancer survivor, Prof. Nyong'o set up the Foundation to mobilize resources, carry out research, create awareness and provide services for the prevention, management and treatment of cancer in Africa.

The Foundation seeks to establish best practice standards and promote exchange of experience with existing centres of excellence around the world and thereby reduce the knowledge gaps between the developed and developing world.

ABC Bank staff with the ACF team, including Medical Services Minister, Anyang Nyong'o (fourth from the right)

CORPORATE SOCIAL RESPONSIBILITY

(Continued)

Kenyans for Kenya

ABC Bank's staff raised Kshs. 120,000 towards the Kenyans for Kenya initiative, which was mobilising funds for Kenyans affected by famine in various parts of the country, in August 2011.

The Bank topped up the staff contribution by Kshs. 125,000 to make the total contribution towards the noble initiative Kshs. 245,000.

The amount was forwarded through the Kenya Bankers Association- the banking sector association - and presented to the Kenyans for Kenya steering committee.

Road Transporters Association, Mombasa

ABC Bank also contributed in the month of August, 2011 to the Road Transporters Association of Mombasa.

The Bank's contribution went towards initiatives to fight hunger in the Coast region, including the purchase of food items to assist the most affected residents.

Mkendwa Shootout

The Mkwendwa shootout is an annual community-building event for all -children, the youth and young adults – irrespective of their social, economic, political or religious backgrounds.

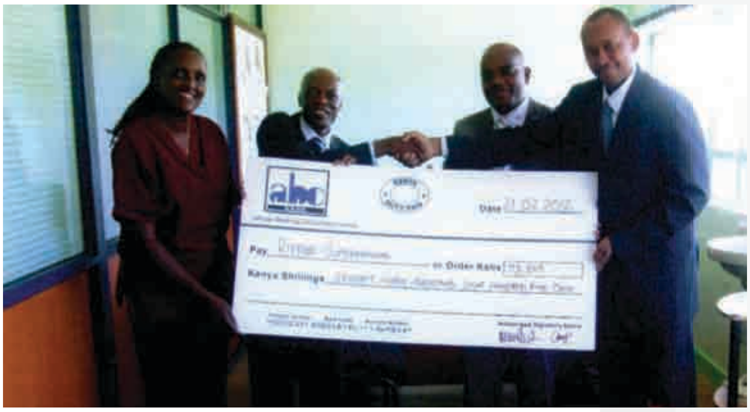
The aim is to bring young people to share their talents, build a sportive unity among the youth and celebrate their talents. TUDI (Tusimame Dominican Youth Initiative) is a youth program under the auspices of Dominican Friars of Eastern Africa. It works with the youth and young adults to help foster holistic growth and development in various aspects of human life.

ABC Bank contributed towards the publicity, referee fees, community/groups mobilisation, feeding of the volunteers and purchase of various items for the event such as branded balls and T-shirts.

Education Scholarships

ABC Bank believes that the future of Kenya lies with her youth. As such the Bank is keen on supporting education for deserving but underprivileged students in the society.

The Bank is sponsoring two high school students, Caroline Wanjiku and Isaiah Thuranira, who are expected to sit for their Kenya Certificate of Secondary Education (KCSE) in 2012. The Bank's sponsorship, through the Ripples International, has enabled the two needy students attend their classes uninterrupted for lack of fees since they joined form one.



Ernest Njiru, (R) Meru Branch Manager, presents a Kshs. 73,805 cheque to Chidi Ogbonna (2nd L) and Mercy Chidi (L) of Ripples International for the form four tuition fees of Caroline Wanjiku and Isaiah Thuranira. Looking on is ABC Bank's Martin Mugambi (2nd R).

Turkana Medical Camp

ABC Bank, with the Kenya Diabetes Management and Information Centre (DMI Centre), organized a medical camp in Turkana Central on September 17th, 2011. DMI Centre a not-for-profit registered medical charity founded in May 1999, with the aim of increasing awareness about diabetes.

During the medical camp, in which the Bank donated Kshs. 200,000, the members of the public had their conditions attended, including, general ailments, dental, eyes and cataract surgeries, diabetes, hypertension, foot and wounds treatment.

CORPORATE INFORMATION

BOARD COMMITTEES

DIRECTORS

Ashraf Savani	Chairman
Shamaz Savani	Group Managing Director
Richard Omwela	
Joseph Muiruri	
Anil Ishani	

BOARD AUDIT COMMITTEE

Joseph Muiruri	Chairman
Richard Omwela	
Anil Ishani	
Charles Kamamo	

BOARD CREDIT COMMITTEE

Richard Omwela	Chairman
Ashraf Savani	
Shamaz Savani	
Raj Pal Arora	
Jesse Timbwa	
Deviinder Gupta	

BOARD RISK & COMPLIANCE COMMITTEE

Joseph Muiruri	Chairman
Richard Omwela	
Anil Ishani	
Robert Gathu	

MANAGEMENT COMMITTEES

EXECUTIVE COMMITTEE

Shamaz Savani	Group Managing Director
Deviinder Gupta	Group Chief Executive Officer
Raj Pal Arora	Chief Operating Officer
John Ngoru	Group Head of Human Resources
Grace Mbogo	Head of Corporate Banking
Geoffrey Nyambane	Head of Finance and Administration
Joel Mbuvi	Head of Treasury
Jesse Timbwa	Head of Credit and Legal
Corline Amanda	Head of Retail Banking

ASSETS AND LIABILITIES COMMITTEE

Deviinder Gupta	Chairman
Shamaz Savani	
Raj Pal Arora	
Geoffrey Nyambane	
Joel Mbuvi	
Grace Mbogo	
Jesse Timbwa	

MANAGEMENT CREDIT COMMITTEE

Shamaz Savani	Chairman
Deviinder Gupta	
Raj Pal Arora	
Jesse Timbwa	
Grace Mbogo	

CORPORATE INFORMATION

(Continued)

COMPANY SECRETARY

Livingstone Associates
Certified Public Secretary (Kenya)
P. O. Box 30029 - 00100
Nairobi.

REGISTERED OFFICE

ABC Bank House
LR No. 1870/IX/107
6th Floor, Woodvale Grove
P. O. Box 13889 - 00800
Nairobi.

HEAD OFFICE

Mezzanine Floor, ABC Bank
Koinange Street
P. O. Box 46452 - 00100
Nairobi.

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P. O. Box 40092 - 00100
Nairobi.

CHAIRMAN'S STATEMENT

ABC Bank Chairman, Mr. Ashraf Savani

It is my pleasure to present to you the Bank's Annual Report and Financial Statements for the year ended 31st December 2011, after another successful year of our operations.

Improved efficiency and sound cost management enabled the Bank to post impressive results during a challenging year.

Operating Environment

The world economy grew by 3.3 per cent in 2011, a slower pace compared to the 3.9 per cent it recorded in 2010, attributable in part to the US and euro-zone debt crisis.

Kenya's Gross Domestic Product (GDP) grew at 4.4 per cent in 2011, down from 5.8 per cent growth in 2010, due to both internal and external shocks that buffeted the economy during the year.

The shocks include insufficient food supply in the first half of the year due to poor rainfall and an increase in the global prices of food and oil, with the latter accounting for a large portion of Kenya's import bill.

A widening current account deficit and a ballooning import bill were exacerbated by imports of cereals to curb local food supply shortages caused by the drought.

The Kenya shilling, which had opened the year 2011 at a level of 80.60 to the US Dollar, depreciated drastically touching a low of 106.85 in October 2011 to the greenback.

The combination of these factors resulted in a steep rise in overall inflation from 5.4 per cent in January 2011 to 19.72 per cent in November 2011, before marginally declining to 18.93 per cent in December 2011.

This triggered a credit squeeze following a decision by the Central Bank of Kenya (CBK) to increase its statutory rate, Central Bank Rate (CBR), from 5.75 per cent in January 2011 to 18 per cent in December 2011, and as a result slowing down various sectors of the economy.

(Continued)

CHAIRMAN'S STATEMENT

(Continued)

The Nairobi Securities Exchange (NSE) overall performance as measured by the benchmark NSE 20-Share Index declined by 27.69 per cent in 2011 to close at 3,205.02 points compared to 4,432.60 points posted at the close of the year 2010.

Equity turnover declined by 13.28 per cent to KShs 77 billion from KShs 89 billion posted in 2010. Annual trading volume also dropped to 5.7 billion shares or 3.34 per cent, down from 5.7 billion shares posted the previous year.

The Bonds market closed the year having declined by 7.80 per cent to KShs 445 billion against KShs 483 billion posted in the previous year.

Market capitalisation stood at KShs 868.24 billion against KShs 1.166.99 trillion posted at close of year 2010.

Banking sector

According to CBK, as at 31st December 2011, the banking sector comprised of CBK, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company - MFC), 4 representative offices of foreign banks, 6 Deposit-Taking Microfinance Institutions (DTMs), 118 Forex Bureaus and 2 Credit Reference Bureaus (CRBs).

Out of the 44 banking institutions, 31 locally-owned banks comprise 3 with public shareholding and 28 privately owned while 13 are foreign owned.

The sector remained resilient in 2011 despite a challenging macro-economic environment. The sector registered a 20.4 per cent increase in the total net assets from Kshs 1.68 trillion in December 2010 to Kshs 2.02 trillion in December 2011. Similarly gross non-performing loans declined by 8.0 per cent from Kshs 57.6 billion in December 2010 to Kshs 53.0 billion in December 2011.

ABC Bank Financial Performance

In spite of the challenging economic environment during the year under review, the Bank's performance improved, underscoring the fact that our business model is bearing fruits.

The Bank reported a 10 per cent increase in profit after tax to KShs 370 million up from KShs. 337 million in 2010.

Our balance sheet grew by 21 per cent during the year under review after it rose to KShs. 12.6 billion up from KShs. 10.3 billion in the previous year. We thank our customers for their loyalty and support towards achieving these results.

Corporate Governance

The Board is pleased with not only the impressive results the Bank posted in 2011, but also the strides it has made in terms of overall growth and increased shareholder value since we started our operations in 1984.

We take our corporate governance seriously, committing ourselves to setting the highest standards in line with international best practices.

Our various board committees meet regularly to ensure that the full Board is properly informed on all risk-related issues.

This enables all directors to contribute fully in identifying, evaluating, monitoring and managing risk and providing the necessary oversight and supporting the growth of the institution.

As a Board, we will continue to ensure that the safety of depositors' funds is guaranteed while providing guidance towards the growth of the Bank and shareholder value by contributing to the Bank's overall strategic development.

Whenever the need has arisen, we have continued to seek new resources-in terms of capital, systems and new skills at both staff and Board level- in order to keep the Bank on an upward, targeted and sustainable growth path.

(Continued)

Mr. Peter Mwangi, CEO Nairobi Securities Exchange presents the 2011 Best Bank award trophy for banks with total assets of between Kshs. 10B and Kshs. 40B to ABC Bank Group CEO Mr. Deviinder Gupta (L) at the Think Business Banking Awards ceremony.

CHAIRMAN'S STATEMENT

(Continued)

Mr. Ashraf Savani receives the Lifetime Achievement Award from David Kabeberi, Partner, PKF International Ltd., at the 2011 Think Business Banking Awards for his contribution to the Kenyan Banking Industry for over 30 years.

During the year, there were some changes in the Board of Directors and within the Board's committees. Mr. Nanalal Purashotam Sheth retired as a Non- Executive Director of ABC Bank with effect from 25th July 2011.

I wish to thank him for the invaluable contribution he has made over the years to the Bank. It is worth noting that he served in the Board with distinction since 1984, including the seven years he served as Chairman.

We wish him every success in his future endeavors.

Corporate Social Responsibility

We, as a Board, are happy with the Bank's programme of giving back to society through various Corporate Social Responsibility (CSR) projects.

We are especially proud of the Bank's management and staff for the manner in which they have selected CSR projects and how they have implemented them.

This is because they have chosen projects in critical areas - community development, education, health and sports, etc, -are sustainable and have the greatest impact on the people and environment in which the Bank operates.

For example, the Bank contributed towards the construction of a Learning Resource Centre (LRC) at the Catholic University of Eastern Africa (CUEA). The Centre will positively impact the educational sector in the Eastern Africa region and beyond.

In July 2011, the Bank contributed towards the launch of the Africa Cancer Foundation (ACF), which went towards printing awareness materials that were distributed to all major hospitals and health centres across the country.

(Continued)

CHAIRMAN'S STATEMENT

(Continued)

On September 17, the Bank, with a not-for-profit organisation, Kenya Diabetes Management and Information Centre (DMI Centre), organised a medical camp in Turkana Central.

Outlook for 2012

The World Bank projects the economy to grow at 5.0 per cent in 2012 and ABC Bank intends to tap into many opportunities that will arise out of the improved economic performance to leverage growth and profitability.

To this end, the Bank has laid the foundation by investing substantially in the business to position it for the opportunities that will arise.

Our focus is to continue investing in our human capital, infrastructure and business development initiatives highlighted by the Group Managing Director to increase our efficiency and competitiveness in the market.

Appreciation

I wish to sincerely thank our customers for allowing us to serve them in 2011.

We are grateful to our management team and staff for effectively responding to the challenging market conditions to register a good performance during the year.

As our most valuable asset, the Board aims to provide the management and staff with all the support they need to enhance their careers while offering our clients the quality service they deserve as we grow our shareholder value.

I am indebted to my fellow board members for the invaluable wisdom they exhibited during the year in discharging their role within the bank.

Together, we can expect even better results going forward.

I look forward to a fruitful year ahead.

Thank you.

Ashraf

Ashraf Savani

Chairman

Mr. Fredrick Pere (L), Director, Bank Supervision Department, Central Bank of Kenya in discussion with Mr. Ashraf Savani (2nd L), ABC Bank Chairman, Mr. Joseph K. Muiruri (2nd R), ABC Bank Director and Mr. Jesse Timbwa, ABC Bank's Head of Credit & Legal after the signing of the credit facility agreement with the European Investment Bank.

GROUP MANAGING DIRECTOR'S STATEMENT

ABC Group Managing Director, Mr. Shamaz Savani

It gives me great pleasure to present to you the ABC Bank Consolidated Audited Accounts and Annual Report for the period ended 31st December, 2011.

The year was characterised by macroeconomic pressures – a high inflationary environment, weakening of the Kenya Shilling against major currencies and rising interest rates.

However, several initiatives and key projects we undertook during the year enabled the Bank to navigate the challenging operating environment to register good results.

Financial Performance

The Bank crossed the half billion mark in profit before tax for the first time in 2011, which is a significant milestone for us. We thank our customers for your support and encouragement.

During the period under review, the Bank's profit before tax grew to Sh508 million, up from Sh477 million in December 2010.

Profit after tax increased by 10 per cent to KShs 370 million compared to KShs 337 million in 2010 after all segments of our business recorded impressive performance.

The Bank's customer deposits went up to KShs10.4 billion from KShs 8.3 billion in 2010, representing a 26 per cent growth.

This is a clear sign that our business strategy of attracting and retaining customers, especially small and medium enterprises (SMEs), through innovative products and quality service, is bearing fruits.

The Bank's balance sheet increased by 21 per cent to KShs 12.6 billion compared to KShs 10.3 billion in 2010.

The Bank's total interest income rose to KShs 1.3 billion from KShs 1 billion driven by a growth in income from loans and advances.

GROUP MANAGING DIRECTOR'S STATEMENT

(Continued)

(Continued)

During the period under review, however, our total operating expenses went up by 11 per cent to KShs 726 million from KShs 651 million in 2010.

This was due to our increased business activities as a result of, among others, new staff recruitment, marketing, training and other capital expenditures on infrastructure.

Our staff count, for instance, has increased to 210 employees after 87 new employees joined the Bank during the year.

These expenses are geared towards coming up with new and superior products and services while enhancing the security and efficiency of our systems and processes to boost our customers' experience.

Key projects

During the year, we executed various projects towards attracting and retaining customers in the various sectors of the economy while enhancing the career progress of our staff and growing our shareholder value.

Change management

The Bank embarked on a change management programme dubbed 'Nyota Mpya' (New Star), whose implementation was guided by a framework- ABC Bank Change Management Policy.

Under the guidance of a new department -Alternative channels and Change Management, the programme's key pillar is customer centricity through efficient service and tailor-made products.

We expect to formally launch the programme, whose tagline is From Ordinary to Extra-ordinary, in the first half of 2012 as we work towards achieving our vision of becoming the premier one-stop-shop financial services provider in the East African region.

Supporting the small businesses

The month of December 2011 was particularly a momentous occasion for ABC Bank, our customers, shareholders and staff.

During this month, we signed a Euro 7 million facility with the European Investment Bank (EIB), the world's largest multinational financial institution owned by the European Union Member States.

Our customers, especially the SMEs, stand to benefit greatly from the facility. This is because we are now able to offer them loans with a longer tenor of between four and 10 years and at rates fairly lower than those prevailing in the market, which we will also structure to meet individual customer needs.

To our shareholders, the agreement is a major shot in the arm for the Bank to not only grow its loan book and, therefore, revenue, but it also opens the doors for it to enter into partnerships with other multinational institutions.

The facility, which is available in Kenya shillings, Euros and US dollars, is particularly good news for our importing and exporting SME customers who will benefit from multi-currency long-term lending opportunities, thereby cushioning them against currency fluctuations.

The agreement also comes with an EIB-sponsored training programme for our staff and eligible customers, which will enhance our knowledge and skills base to serve the SME sector even better.

Prof. James ole Kiyiapi, the Permanent Secretary Ministry of Education (L) and Ms. Amanda Corline, Head of Retail Banking, signing a Memorandum of Understanding between the Ministry and ABC Bank.

GROUP MANAGING DIRECTOR'S STATEMENT

(Continued)

ATI

In 2011, our affiliate company, ABC Insurance Brokers Limited, was approved to join the panel of the African Trade Insurance Agency (ATI), the only multilateral insurer in Africa.

The approval will enable both the customers and non-customers of ABC Bank to access unique products offered by ATI, including covers for political risks such as currency inconvertibility, expropriation, war and civil disturbance, terrorism and sabotage.

Improved customer engagement

Customer engagement remains close to our heart. Through our new customer relationship management (CRM) platform, Talisma, we now have a channel through which we interact with our customers in a faster and more efficient manner.

We are able to provide information about the Bank to our domestic and Diaspora customers while attending to their inquiries, compliments and complaints without undue delay.

The measures have not only enabled us to get feedback from our customers instantly, but also build an up-to-date database of our customers, facilitating us to constantly engage them thereby keeping them updated on what we are doing.

We hosted our annual Customer Focus Week on December 19-23, 2011 where we celebrated our esteemed customers.

To underscore the value we place on customer satisfaction, the Executive Committee members were on the ground during the Customer Focus Week meeting and interacting with the customers to obtain their feedback. Going forward, we plan to hold the event twice yearly.

As any good corporate citizen, we also invested significantly in Community Social Development through our involvement in a number of projects during the year as explained in other pages of this report.

In the coming year, we will be carefully selecting projects that we will participate in, only going for ones that are sustainable and have the widest possible impact on the people and environment in which we operate.

(Continued)

Mr. Manson Nyamweya, Kenya's Assistant Minister for Trade, speaks at the signing ceremony of the Memorandum of Understanding between ABC Bank and the Exports Processing Zones Authority (EPZA) at Laico Regency, Nairobi.

GROUP MANAGING DIRECTOR'S STATEMENT

(Continued)

Outlook for 2012

This is a critical year for us in part because we are coming to the end of our current 3-year strategic plan in December. We will, therefore, be preparing to roll out a 5-year strategy commencing January 2013 as we review our strategic focus for the Bank.

We intend to aggressively work towards growing our market share as we shift our strategic focus to the top-line, by leveraging on the investments we made in the last one year.

The investments include a successful process of recruiting necessary staff in the last 12 months, re-engineering our processes to make them more efficient and re-designing our products to increase their market appeal especially to the SMEs.

We expect to achieve our strategic objectives by implementing various inter-linked and well thought-out initiatives and projects, improving our efficiency, expanding our reach as well as seeking out and entering into partnerships with selected strategic partners to grow the business.

To increase our footprint, we are targeting to open new branches in 2012 to complement our current branch network.

Significantly, by leveraging on our upgraded core banking system, we plan to expand our reach by rolling out innovative products and services, including intelligent ATMs, and upgrading our mobile and internet banking to increase our retail customers' access to our services.

As our key asset, we will continue investing in our staff during the year by rolling out extensive training and mentorship programmes for them.

With our performance-based human resource information management system, we expect to increase the capability and effectiveness of our staff in their immediate and future tasks through internal and external training programmes.

Conclusion

I extend my appreciation to our customers, business partners, Board of Directors, the management team and staff for their commitment to the Bank.

Thank you.

Shamaz Savani
Group Managing Director

Group MD, Shamaz Savani (seated 5th-R) and Group CEO, Deviinder Gupta (seated 4th-R) with representatives from middle and senior management from across the Bank's branches, departments and Ex-Co members during a recent 5 year strategy formulation workshop.

BOARD OF DIRECTORS

Mr. Ashraf Savani
Chairman

Mr. Ashraf Savani is the Chairman of African Banking Corporation Ltd. He has 45 years of experience in the banking industry and is the founding Managing Director of ABC Bank having started it in 1984 first as a financial institution before converting it to a fully-fledged bank in 1994. He started his banking career in 1964 with Habib Bank Ltd rising to the position of Vice President at Habib Bank A.G. Zurich. In 1984 he left to form the Consolidated Finance Company now known as African Banking Corporation Ltd. He holds a Bachelor of Commerce Degree and a Diploma in Banking.

Mr. Joseph K. Muiruri
Non-Executive Director

Mr. Joseph Muiruri is an accountant by profession, having qualified as a fellow of Chartered Association of Certified Accountants (UK) in 1976 and is also a practitioner of the Institute of Certified Public Accountants of Kenya (ICPAK). He retired in December 2002 after working for 35 years with Ernst & Young East Africa, where for 25 years he was a partner and Chairman of the firm from 1996 - 2002. As partner in charge of a large portfolio of major clients, he gained wide auditing and accounting experience. He is now a financial consultant and also acts as a Non - Executive director in a number of companies. Mr. Muiruri also chairs the ABC Board Audit, Risk and Compliance committee.

Mr. Anil Ishani
Non-Executive Director

Mr. Anil Ishani was until 2007 the Resident Representative of the Aga Khan Development Network in Kenya (AKDN). Prior to that, until 1997, Mr. Ishani was a consultant in the London office of UK Soicitors Dibb Lupton Alsop. Early in his career, having qualified as a Barrister at the middle Temple in London, 1959, he returned to Kenya and joined the family practice of Ishani and Ishani Advocates. In 1972, he settled in the UK, joined the well known City firm of Adlers Solicitors, and qualified as a Solicitor, in 1975. He became a Partner in 1989. In 1992, Mr. Ishani enjoyed the priviledge of being the only consultant in the firm's London office.

In 1977, he was appointed by His Higness to the diplomatic position of AKDN Resident Representative in Kenya and retired in 2007. He now resides in Kenya and acts as a consultant. He is a Council Member of the Superbrands.

Mr. Richard Omwela
Non-Executive Director

Mr. Richard Omwela holds a law degree from the University of Nairobi and a diploma from the Kenya School of Law. He is an advocate of the High Court of Kenya and a partner in the leading Nairobi law firm of Hamilton Harrison & Mathews Advocates, where he is in charge of the Commercial & Conveyance Department. He is also a member of the Chartered Institute of Secretaries of Kenya. He has been a Director of the Bank since 2000 and is the Chairman of the Audit Committee. Mr. Omwela sits on the boards of several other companies and is a former Chairman of Kenya Rugby Football Union and was in the past the Chairman of Westlands Rotary Club of Nairobi.

Mr. Shamaz Savani
Group Managing Director

Mr. Shamaz Savani has a B.Com in finance and a B.A. in Economics; both from McMaster University, Canada, and an MBA from the University of Surrey in UK. He has been with the bank for over 15 years.

Mr. Shamaz Savani is responsible for strategy formulation, policy making and IT Integration. In addition, he is the Chief Sponsor for all change management projects in the bank.

STATEMENT ON CORPORATE GOVERNANCE

African Banking Corporation Limited is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the bank's business is conducted in accordance with high standards of corporate governance. Of particular importance to the bank are the observance of shareholders' interest, efficient practices and open corporate communication systems.

1. BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 17.

The Board is responsible for formulating the bank policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the bank and implements corporate governance policies of the bank.

The Board comprises four non-executive Directors and the Group Managing Director.

The Directors have diverse skills and are drawn from various sectors of the economy. The Chairman, Vice-Chairman and Chairmen of Board committees are non-executive Directors.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the bank's Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least four times annually. During the year, the board convened and held six ordinary meetings. In accordance with the bank's practice, one Board meeting is normally scheduled to coincide with the occasion of the Annual General Meeting.

The Bank Secretary is always available to the Board of Directors.

a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 35(e) to the financial statements for the year ended 31 December 2011. The bank advanced loans to Directors and their associated companies as disclosed in Note 35(a).

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the bank and its Directors or Management except those disclosed in Note 35 to the financial statements for the year ended 31 December 2011.

c) Board and Director Evaluation

Both peer and self evaluations of the Board members including the Chairman have been done.

(Continued)

Mrs. Ida Odinga (2nd R), Kenya's Prime Minister Raila Odinga's wife, presents a gift to Rose Niasimuyu, a cancer survivor (2nd L) as Medical Services Minister, Prof. Anyang' Nyong'o (R) and his wife Dorothy looks on during the launch of the African Cancer Foundation (ACF) in Nairobi.

STATEMENT ON CORPORATE GOVERNANCE

(Continued)

2. BOARD COMMITTEES

The Board has in place three main committees, namely the Board Audit Committee, the Board Credit Committee and the Risk and Compliance Committee. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the board. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the bank's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary.

The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day to day running of the bank is delegated to the Group Managing Director.

a) Board Audit Committee

The Audit Committee is chaired by a non-executive director (Mr. J. Muiruri) and meets on a quarterly basis. Other members are two non-executive directors (Mr. R. Omwela and Mr. A Ishani) and the Chief Auditor (Mr. C. Kamamo). The responsibilities of this committee are the review of financial information and the monitoring of the effectiveness of management information and internal control systems. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. In addition, the committee deliberates on the significant findings arising from inspections by the Supervision Department of Central Bank.

b) Board Risk and Compliance Committee

The Risk and Compliance Committee is chaired by a non-executive Director (Mr. J. Muiruri). The other members are two non-executive appointees of the Board (Mr. R. Omwela and Mr. A. Ishani) as well as the Head of Risk and Compliance (Mr. R. Gathu). The Committee meets on a quarterly basis and is responsible for ensuring that the systems, procedures and policies of the bank are properly established, monitored and reported on. The committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the bank.

c) Board Credit Committee

The Credit Committee is chaired by a non-executive director (Mr. R. Omwela) and meets on a quarterly basis or as need arises to review Credit Policies, facilities granted and other credit related issues that require Board deliberation. Other members are the Group Chairman (Mr. A. Savani), Group Managing Director (Mr. S. Savani), the Chief Operations Officer (Mr. R. Arora), and the Head, Credit and Legal department (Mr. J. Timbwa).

d) Executive Committee (Exco)

This committee has overall responsibility for risk management, monitoring and evaluation of performance and strategy formulation and implementation. The committee advises and assists the Group MD in making decisions that define the direction the bank takes.

(Continued)

Ms. Hannah Gitugia (L) of ABC Bank Nakuru Branch presents a cheque to Mr. Nitin Kumar Hansraj Shah, Director Jay Kay Enterprises; during a raffle for the Bank's customers where the winners donated their prizes to charities of their choice.

Mr. Shah presented the cheque to SCAN-Street Children Assistance Network.

STATEMENT ON CORPORATE GOVERNANCE

(Continued)

e) Assets and Liabilities Management Committee (ALCO)

Its membership comprises business heads and the Head of Finance and Administration. The committee meets monthly and is responsible for the monitoring and management of the statement of financial position, including liquidity risk, maturity risk, interest rate risk, and exchange rate risk, compliance with statutory requirements governing liquidity, cash ratio and foreign exchange exposure, investment policies and the setting of interest rates.

f) Other Committees

Other management support structures revolve around committees set up to support the Group Managing Director in the day-to-day management of the bank and the group and include the Management Credit Committee (MCC), the Non-Performing Loans Committee (NPLC) and the Human Resources Committee (HRC). The MCC meets at weekly to review credit applications, pending disbursements and credit risk. The other committees meet at least monthly.

3. RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the Bank's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the Bank's system of internal control and for reviewing its effectiveness. The bank has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. This process is also reviewed by the Internal Auditor. The bank has in place controls and a Balanced Scorecard Tool which include, but are not limited to, an annual strategic planning and budgeting process, a regular review of strategic initiatives, a well defined organizational structure which is kept under regular review by the Board, clearly laid down authority levels, and a review of quarterly financial and operating information by Management and the Board.

Kavi Shah, tees off at the fifth annual ABC Group golf day held at the Eldoret Golf Club. Over 70 golfers congregated for the event held on September 3, 2011.

4. BUSINESS ETHICS

The bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its intermediaries, employees and other stakeholders are conducted at arm's length, with integrity and transparency.

5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

As part of its policy, the bank recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for its entire staff. The bank assists its staff to undertake continuous professional and development training programmes to fulfill their potential. This process is appropriately managed to align staff development with the Bank's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

6. SHAREHOLDERS

The composition of shareholders and their individual holdings at the year ended 2011 was in full compliance with the provisions of the Banking Act and Central Bank of Kenya Prudential Guidelines. There was change in the shareholding structure in 2011 to comply with the provisions of the Banking Act and Central Bank of Kenya Prudential Guidelines.

(Continued)

STATEMENT ON CORPORATE GOVERNANCE

(Continued)

7. BOARD AND COMMITTEE MEETINGS ATTENDANCE

The Board meets quarterly for scheduled meetings to review the Group's performance against business plans as well as to formulate and implement strategy and on other occasions to deal with any issue that requires attention between the quarterly meetings. During the year, the Board held 6 ordinary meetings. Details of attendance for each member of board are as below.

Director	Number of meetings attended
1. Ashraf Savani	5
2. Richard Omwela	5
3. Joseph Muiruri	6
4. Nanalal Sheth	3*
5. Anil Ishani	6
6. Shamaz Savani	6

The Executive Committee and ALCO convened during each month and held twelve meetings each whereas the Board Audit Committee, the Board Credit Committee and the Board Risk and Compliance Committee convened and held four meetings each. All the meetings convened had sufficient quorum and all the board members required to attend were present at each meeting. As part of corporate governance, board assessments are performed annually per the regulator's requirements.

*Nanalal Sheth retired from being a director of the company on 25 July 2011.

8. COMPLIANCE

The bank operates within the requirements of the Banking Act, among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Group prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).

Director

Director

Ambrose Mwachilumo, Relationship Officer, Retail Banking, hands a sponsorship cheque to Mrs Caroline Blumer, organizer of the Pembroke House Foundation Mini Triathlon, held at Pembroke House School in Gilgil in October 2011.

REPORT OF THE DIRECTORS

The directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2011, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act, which disclose the state of affairs of the Group and the bank.

For purposes of reporting under the Kenyan Companies Act, the balance sheet in the accompanying financial statements is represented by the statement of financial position and the profit and loss account is represented by the statement of comprehensive income.

Group CEO, Deviinder Gupta addresses the guests at a dinner the Bank hosted for the Kenya Association of Private Employment Agencies in Nairobi.

ACTIVITIES

The principal activities of the Group are the provision of banking, stock brokerage, financial and related services.

RESULTS

	Shs. '000
Profit before taxation	508,005
Taxation expense	(138,039)
Retained profit for the year	369,966
	=======
Attributable to:	
Equity holders of the parent company	371,001
Non-controlling interests	(1,035)
	369,966
	=======

DIVIDENDS

An interim dividend of Sh 0.80 per share (2010 - Nil) was paid during the year amounting to Sh 84,000,000 (2010 – Nil).

DIRECTORS

The present members of the Board of Directors are shown on page 22-23.

Mr Nanalal Sheth resigned from being a director on 25 July 2011.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office in accordance with section 159 (2) of the Kenyan Companies Act and subject to approval by the Central Bank of Kenya in accordance with section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

W Ndumba

Secretary

28 March 2012.

Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the bank as at the end of the financial year and of the operating results of the Group for that year. It also requires the directors to ensure that the companies in the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the bank. They are also responsible for safeguarding the assets of the Group.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the bank and of the Group's operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the bank and its subsidiary will not remain going concerns for at least the next twelve months from the date of this statement.

Director

Director

28 March 2012.

Kipkosgei Rogony (R), ABC Bank Eldoret Branch Manager, presents a cash prize to Pamela Lisoreng (L) who was second in the women's race at the Annual Baringo Half Marathon held on November 6, 2011, which was partly sponsored by the Bank.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN BANKING CORPORATION LIMITED

Report on financial statements

We have audited the financial statements of African Banking Corporation Limited and its subsidiary set out on pages 32 to 86 which comprise the consolidated and bank statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated and bank statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the bank and its subsidiary as at 31 December 2011 and of their profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

(Continued)

Mr. Joe Kirigia (R), of ABC Bank's SME Banking, addresses Government and Parastals procurement officers at a Supply Chain Finance Conference hosted by ABC Bank at a Nairobi hotel. Looking on is the Group CEO, Mr. Deviinder Gupta.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN BANKING CORPORATION LIMITED

(Continued)

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the bank, so far as appears from our examination of those books; and

iii) the bank's statement of financial position is in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

28 March 2012

Nairobi

Mr. Nick Nguyo, a trustee of The Cluster Foundation, explains to Ms. Amanda Corline (L), ABC Bank Head of Retail Banking, how they produce eco-pencils from recycled newspapers. This was after the Bank handed over bundles of old newspapers to The Foundation for the production of the pencils. The Foundation sells the pencils to the public to raise funds towards supporting its programme of assisting people with spinal cord injuries (paraplegics).

The Bank has committed to continue supporting the Foundation by donating all its old newspapers quarterly.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 Sh '000	2010 Sh '000
INTEREST INCOME	5	1,267,014	1,055,334
INTEREST EXPENSE	6	(513,294)	(360,841)
NET INTEREST INCOME		753,720	694,493
Fees and commission income		240,971	234,260
Foreign exchange trading income		144,636	67,179
Other operating income	7	88,051	132,347
OPERATING INCOME		1,227,378	1,128,279
Operating expenses	8	(714,014	(601,495)
Impairment charge on loans and receivables	18 (d)	(11,603)	(40,427)
Share of results of associate	24	6,244	(9,668)
PROFIT BEFORE TAXATION		508,005	476,689
TAXATION EXPENSE	10 (a)	(138,039)	(140,123)
PROFIT FOR THE YEAR		369,966	336,566
OTHER COMPREHENSIVE INCOME			
Fair value (loss)/gain on available for sale investments	16 (ii)	(187,788)	143,318
Realised on disposal of available for sale assets	16 (ii)	(30,088)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		152,090	479,884
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Equity holders of the parent company		371,001	336,120
Non-controlling interests		(1,035)	446
TOTAL COMPREHENSIVE INCOME		369,966	336,566
ATTRIBUTABLE TO:			
Equity holders of the parent company		153,125	479,438
Non-controlling interests		(1,035)	446
		152,090	479,884
		Sh	Sh
Earnings per share - Basic & Diluted	13	3.53	3.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 Sh '000	2010 Sh '000
ASSETS	14	850,481	674,419
Cash and balances with Central Bank of Kenya			
Deposits and balances due from banking	15	502,060	752,790
institutions	16	2,601,282	2,392,096
Government securities	17	375,483	375,358
Corporate bonds	18 (a)	7,073,553	5,288,180
Loans and receivables to customers	19	-	8,028
Equity investments - quoted	10 (c)	18,562	621
Tax recoverable	20	256,017	117,471
Other assets	21	1,611	969
Due from related parties	22 (a)	430,074	379,341
Property and equipment	23 (a)	277,899	275,568
Intangible assets	24	174,058	83,898
Investment in associate	29	5,007	-
Deferred tax assets			
TOTAL ASSETS		12,566,087	10,348,739
		=======	=======
LIABILITIES			
Balances due to banking institutions	26	50,055	60,000
Customer deposits	27	10,442,446	8,305,790
Tax payable	10 (c)	-	33,197
Other liabilities	28	300,931	241,616
Deferred tax liability	29	-	3,571
TOTAL LIABILITIES		10,793,432	8,644,174
		=======	=======
SHAREHOLDERS' FUNDS			
Share capital	30	1,050,000	1,050,000
Retained earnings		698,206	422,837
Revaluation reserve		(74,558)	143,318
Statutory reserve	31	67,780	56,148
Attributable to equity holders of the parent company		1,741,428	1,672,303
Non-controlling interests	32	31,227	32,262
TOTAL SHAREHOLDERS' FUNDS		1,772,655	1,704,565
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		12,566,087	10,348,739
		=======	=======

The financial statements on pages 10 to 63 were approved and authorised for issue by the board of directors on 2012 and were signed on its behalf by:

____________________) Director ____________________) Director

____________________) Chief Executive Officer ____________________) Company Secretary

BANK STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 Sh '000	2010 Sh '000
ASSETS			
Cash and balances with Central Bank of Kenya	14	850,477	674,415
Deposits and balances due from banking institutions	15	494,622	744,989
Government securities	16	2,601,282	2,392,096
Corporate bonds	17	375,483	375,358
Loans and receivables to customers	18 (a)	7,073,553	5,288,180
Equity investments - quoted	19	-	8,028
Tax recoverable	10 (c)	16,880	-
Other assets	20	237,652	97,873
Due from related parties	21	8,390	3,124
Property and equipment	22 (b)	428,313	377,181
Intangible assets	23 (b)	24,911	23,901
Investment in associate	24	177,482	93,566
Investment in subsidiary	25	217,850	217,850
TOTAL ASSETS		12,506,895	10,296,561
		=======	=======
LIABILITIES			
Balances due to banking institutions	26	50,055	60,000
Customer deposits	27	10,442,446	8,305,790
Due to related parties		28,833	47,247
Tax payable	10 (c)	-	33,197
Other liabilities	28	280,360	213,023
Deferred tax liability	29	3,114	6,733
TOTAL LIABILITIES		10,804,808	8,665,990
SHAREHOLDERS' FUNDS	30	1,050,000	1,050,000
Share capital		658,865	381,105
Retained earnings		(74,558)	143,318
Revaluation reserve	31	67,780	56,148
Statutory reserve			
SHAREHOLDERS' FUNDS		1,702,087	1,630,571
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		12,506,895	10,296,561
		=======	=======

The financial statements on pages 10 to 63 were approved and authorised for issue by the board of directors on 2012 and were signed on its behalf by:

______________________) Director ______________________) Director

______________________) Chief Executive Officer ______________________) Company Secretary

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

ABC GROUP

	Note	Share Capital	Retained Earnings	Revaluation reserve	Statutory reserve	Attributable equity holders of the parent	Non controlling Interests	Total
		Sh '000	Sh '000	Sh '000	Sh '000	Sh '000	Sh '000	Sh '000
At 1 January 2010		525,000	659,902	-	5,518	1,190,420	34,261	1,224,681
Profit for the year		-	336,120	-	-	336,120	446	336,566
Other comprehensive income		-	-	143,318	-	143,318	-	143,318
Total comprehensive income for the year		-	336,120	143,318	-	479,884	446	479,884
Transfer to statutory reserve	31	-	(50,630)	-	50,630	-	-	-
Effect of change in shareholding in subsidiary	32	-	2,445	-	-	2,445	(2,445)	-
Issue of bonus shares	30	525,000	(525,000)	-	-	-	-	_
At 31 December 2010		1,050,000	422,837	143,318	56,148	1,672,303	32,262	1,704,565
		======	======	======	======	======	======	======
At 1 January 2011		1,050,000	422,837	143,318	56,148	1,672,303	32,262	1,704,565
Profit for the year		-	371,001	-	-	371,001	(1,035)	369,966
Other comprehensive income		-	-	(217,876)	-	(217,876)	-	(217,876)
Total comprehensive income for the year		-	371,001	(217,876)	-	153.125	(1,035)	152,090
Transfer to statutory reserve	31	-	(11,632)	-	11,632	-	-	-
Interim dividends paid	12	-	(84,000)	-	-	(84,000)	-	(84,000)
At 31 December 2011		1,050,000	698,206	(74,558)	67,780	1,741,428	31,227	1,772,655
		======	======	======	======	======	======	======

The statutory reserve relates to the excess provisions for impairments for loans and receivables as computed per the Central Bank of Kenya

Prudential guidelines over that computed in accordance with IAS 39 on financial instruments. The statutory reserve is not distributable.

The revaluation reserve represents the net cumulative surplus (deficit) arising from revaluation of available for sale investments. The revaluation reserve is not distributable.

BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share Capital Sh '000	Retained earnings Sh '000	Revaluation reserve Sh '000	Statutory reserve Sh '000	Total Sh '000
At 1 January 2010	525,000	614,507	-	5,518	1,145,025
Profit for the year	-	342,228	-	-	342,228
Other comprehensive income	-	-	143,318	-	143,318
Total comprehensive income	-	342,228	143,318	-	485,546
Issue of bonus shares	525,000	(525,000)	-	-	-
Transfer to statutory reserve	-	(50,630)	-	50,630	-
At 31 December 2010	1,050,000	381,105	143,318	56,148	1,630,571
At 1 January 2011	1,050,000	381,105	143,318	56,148	1,630,571
Profit for the year	-	373,392	-	-	373,392
Other comprehensive income	-	-	(217,876)	-	(217,876)
Total comprehensive income	-	373,392	(217,876)	-	155,516
Transfer to statutory reserve	-	(11,632)	-	11,632	-
Interim dividends paid	-	(84,000)	-	-	(84,000)
At 31 December 2011	1,050,000	658,865	(74,558)	67,780	1,702,087
	======	======	======	======	======

The statutory reserve relates to the excess provisions for impairments for loans and receivables as computed per the

Central Bank of Kenya Prudential guidelines over the loans and receivables impairment provision as computed in

accordance with IAS 39 on financial instruments. The statutory reserve is not distributable.

The revaluation reserve represents the net cumulative surplus (deficit) arising from revaluation of available for sale investments. The revaluation reserve is not distributable.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 Sh '000	2010 Sh '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33 (a)	38,080	500,149
Taxation paid	10 (c)	(197,755)	(91,712)
Cash (used in)/ generated from operating activities		(159,675)	408,437
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	22 (a)	(79,349)	(112,980)
Purchase of intangible assets	23 (a)	(7,036)	(3,632)
Proceeds on sale of property and equipment		2,129	-
Acquisition of additional interest in associate	24	(83,916)	(93,566)
Proceeds on sale of quoted shares	19	10,022	18,872
Purchase of quoted shares	19	(1,994)	(16,876)
Cash used in investing activities		(160,144)	(208,182)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	12	(84,000)	-
(Decrease)/increase in cash and cash equivalents		(403,819)	200,255
Cash and cash equivalents at 1 January		1,208,736	1,008,481
Cash and cash equivalents at 31 December	33 (b)	804,917	1,208,736
		======	======

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(a) New standards and amendments to published standards effective for the year ended 31 December 2011

The following new and revised IFRSs have been applied in the current year and have not affected the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. The Group continued to disclose such items in the statement of changes in equity and the amendment had no effect on the Group's financial statements
IAS 24 Related Party Disclosures (as revised in 2009)	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The Group is not a government-related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard.
Amendments to IFRS 3 Business Combinations	As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date (market-based measured). The application of IFRS 3 has had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(a) New standards and amendments to published standards effective for the year ended 31 December 2011 (Continued)

Amendments to IAS 32 Classification of Rights Issues	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Group's consolidated financial statements.
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.
Improvements to IFRSs issued in 2010	The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(b) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2011

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective: Adoption of new and revised International Financial Reporting

	Effective for annual periods beginning on or after
Amendments to IFRS 7, Financial Instruments: Disclosures - amendments enhancing disclosures about transfers of financial assets	1-Jul-2011
IFRS 9, Financial Instruments - Classification and Measurement	1-Jan-2013
IFRS 10 - Consolidated financial statements. IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements	1-Jan-2013
IFRS 11, Joint Arrangements	1-Jan-2013
IFRS 12, Disclosure of Interests in Other Entities	1-Jan-2013
IFRS 13, Fair Value measurement	1-Jan-2013
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1-Jul-2012
Amendments to IAS 12 -Deferred Tax -Recovery of Underlying Assets	1-Jan-2012
IAS 19 (as revised in 2011)- Employee Benefits	1-Jan-2013

Amendments to IFRS 7: Disclosures-Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures.

IFRS 9: Financial Instruments

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) Standards (IFRSs) (Continued)

b) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2011(Continued)

IFRS 9: Financial Instruments (Continued)

• Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

• The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

• Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

• The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

b) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2011(Continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

IAS 27 (as revised in 2011) - Separate Financial Statements

IAS 27 has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements.

IAS 28 (as revised in 2011) - Investments in Associates and Joint Ventures

IAS 28 has been amended for conforming changes based on issuance of IFRS 10 and IFRS 11.

The directors anticipate that IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 as detailed above will be adopted in the Group's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standards may not affect the amounts and disclosures in the financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements, however, the Group is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

b) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2011(Continued)

Amendments to IAS 12 -Deferred Tax -Recovery of Underlying Assets

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The above amendments are effective for annual periods beginning on or after 1 January 2012. The Group will apply this amendment prospectively. The directors anticipate no material impact to the Group's financial statements currently. However, the Group would have to apply this standard to any such arrangements entered into in the future.

IAS 19 (as revised in 2011) - Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may not have an impact.

(c) Early adoption of standards

The Group did not early-adopt any new or amended standards in the period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of certain intangible assets and financial instruments which are accounted for at fair value.

Basis of consolidation

Subsidiaries

Subsidiary undertakings, being those companies in which the bank either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated as from the date of disposal. All inter-company transactions balances and unrealised surpluses and deficits on transactions with the subsidiary companies have been eliminated.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Subsidiaries (Continued)

The consolidated financial statements incorporate the financial statements of the bank and its subsidiary, ABC Capital Limited whose financial year end is 31 December 2011.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests proportionate share of the fair value of the acquirees identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

1. ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated as at fair value through profit and loss, are recognized within interest income and interest expense in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

Interest income includes interest on loans and receivables, placements with other banks and investments in government securities, and is recognised in the period in which it is earned.

Fees and commissions

In the normal course of business, the Group earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the the services are received.

Statutory reserve

IAS 39 requires the Group to recognise an impairment loss when there is objective evidence that loans and receivables are impaired. However, Central Bank of Kenya prudential guidelines require the Group to set aside amounts for impairment losses on loans and receivables in addition to those losses that have been recognised under IAS 39. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure directly attributable to the acquisition of the asset (costs of bringing the assets to its location and working condition).

Depreciation is calculated on a pro-rata basis at the following annual rates estimated to write off the cost of property and equipment over their expected useful lives, on the following basis:

	Rate	Basis
Buildings	2%	Straight line basis
Office renovations	Over the lease period of the building	Straight line basis
Motor vehicles	20%	Straight line basis
Furniture and equipment	12.50%	Reducing balance basis
Computers, copiers and faxes	30%	Reducing balance basis

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (Continued)

Intangible assets

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding 10 years.

The investment in the Nairobi Securities Exchange seat is initially recognised at cost. After initial recognition, the seat is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. The fair value is determined by reference to the latest auction price for a similar seat.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in Kenya shillings at the rates of exchange ruling at the end of the reporting period. Transactions in foreign currency during the period are translated at the rates of exchange ruling at the dates of the transactions. The resulting gains or losses are dealt with in profit or loss.

Provisions for liabilities and charges

Entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of the reporting period.

Retirement benefits

The Group's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

The Group operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the employer.

1. ACCOUNTING POLICIES (Continued)

Retirement Benefits (Continued)

The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Sh 200 per employee per month.

Financial Instruments

Financial assets

Classification

A financial asset or liability is recognised when the Group becomes party to the contractual provisions of the instrument. As at the reporting date, the classification of the Group's financial assets was as follows:

• Fair value through profit or loss:

- Quoted equity investments

• Loans and receivables:

- Cash and balances with Central Bank of Kenya, deposits and balances due from banking institutions,

loans and receivables to customers, due from related parties and trade and other receivables.

• Held to maturity:

- Treasury bonds, treasury bills, commercial paper and corporate bonds.

• Available for sale:

- Treasury bonds designated as available for sale.

Management determines the appropriate classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised when cash is advanced to borrowers. They are categorised as originated loans and carried at amortised cost.

(iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

(iv) Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available-for-sale.

Recognition and derecognition of financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is transferred to retained earnings through profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.

If it is probable that the Group will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in profit or loss for the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

Identified provisions are recognised for loans and receivables that are individually significant. Unidentified provision is measured and recognised on a portfolio basis where there is objective evidence that probable losses are present in components of the loan portfolio at the end of the reporting period. This is estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is deemed uncollectible, it is written off against the related provision for impairment losses. Subsequent recoveries are credited to the profit or loss for the year.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the profit or loss for the year.

Financial liabilities

After initial recognition, the Group measures all financial liabilities including customer deposits other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (Continued)

The Group as lessee (Continued)

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as transactions off the statement of financial position and disclosed as contingent liabilities.

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO) and Credit Committees, which are responsible for developing and monitoring the Group's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and receivables to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Credit Committee. A separate Credit department, reporting to the Credit Committee, is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head of Credit, Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and receivables), and by issuer, credit rating band, market liquidity and country (for investment securities).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Credit risk (Continued)

Management of credit risk (Continued)

• Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by Group credit committee.

• Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to Credit on the credit quality of local portfolios and appropriate corrective action is taken.

• Providing advice, guidance and specialist skills to business units to promote best practice throughout the bank in the management of credit risk.

Credit risk on financial assets other than loans

The Group is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management system, the Group's management reviews information on significant amounts.

The Group's management assesses the credit quality of each counterparty, taking into account its financial position, past experience and other factors.

The credit risk on amounts due from banking institutions, corporate bonds, commercial paper, government securities and balances with Central Bank of Kenya is limited because the counterparties are banks, the government and corporations with high credit ratings.

The amount that best represents the Group's such exposure to credit risk, at the end of the reporting period is made up as follows:

	2011	2010
	Sh '000	Sh '000
Cash and balances with Central Bank of Kenya	850,481	674,419
Deposits due from banking institutions	502,056	752,790
Government securities	2,601,282	2,392,096
Corporate bonds	375,483	375,358
Due from related parties	1,611	969
Loans and receivables	7,073,553	5,288,180
	11,404,466	9,483,812
	========	========

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Credit risk (Continued)

Classification of loans and receivables

Loans and Receivables to Customers	Gross Amounts	Impairment Allowances	Net Amounts	
31-Dec-11	Sh '000	Sh '000	Sh '000	%
Neither past due nor impaired	6,856,150	-	6,856,150	97
Past due but not impaired	176,909	-	176,909	2
Impaired	208,305	167,811	40,494	1
Total	7,241,364	167,811	7,073,553	100
31-Dec-10				
Neither past due nor impaired	5,141,767	-	5,141,767	98
Past due but not impaired	113,186	-	113,186	1
Impaired	238,140	204,913	33,227	1
Total	5,493,093	204,913	5,288,180	100

a) Credit risk (Continued)

Neither past due nor impaired

The Group classifies loans and receivables under this category if they are up to date and in line with their contractual agreements. Such loans would have demonstrated the meeting of their financial and non-financial conditions and the borrowers would have proven capacity to be repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in accordance with the Central Bank Prudential Guidelines. A collective provision on the total outstanding balances is made and appropriated from revenue reserves to statutory reserves.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group. These loans are categorised as watch (category 2) in accordance with the Central Bank Prudential Guidelines.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3, 4 and 5 in accordance with the Central Bank Prudential Guidelines.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured under these terms, it remains in this category for six months after which the category is reviewed. However the amounts involved are insignificant.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to exposures classified as nonperforming, and a collective loan loss allowance established for Groups of homogeneous assets in respect of losses inherent in the performing portfolio.

Write-off policy

The Group writes off a loan / balance (and any related allowances for impairment losses) when the Credit Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance loans, write off decisions are generally based on specific past due status.

Collateral held

The Group holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of restructuring or downgrading of the account, and generally are not updated except when a loan is individually assessed as impaired or where there is a market for the security. Collateral is generally not held over loans and receivables to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral is usually not held against government securities, and no such collateral was held at 31 December 2011 (2010: Nil).

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2011	2010
	Sh '000	Sh '000
Against individually impaired		
Property	411,059	183,170
Other	27,221	12,130
Against collectively impaired		
Property	1,622,619	2,500,368
Other	1,096,499	1,689,645
Against past due but not impaired		
Property	250,998	423,600
Other	25,966	43,822
Against neither past due nor impaired		
Property	4,709,691	2,308,032
Other	3,182,613	1,559,672
Total	11,326,666	8,720,439

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

a) Credit risk (Continued)

Concentrations of risk

The Group monitors concentrations of credit risk by sector. Details of significant concentrations of the bank's liabilities and items off the statement of financial position by industry Groups are as detailed below:

(i) Advances to customers	2011	2011	2010	2010
	Sh'000	%	Sh'000	%
Manufacturing	1,142,628	16	655,892	12
Wholesale, retail trade and hotels	1,874,159	26	1,248,904	26
Transport and communications	838,329	12	834,427	15
Agriculture	48,966	1	51,288	1
Business service	607,137	9	452,774	9
Building, constructions and real estate	1,837,248	26	791,233	15
Social, community and personal service	177,731	3	237,672	4
Foreign trade	318,151	4	404,310	7
Individuals, non-profit making organisations and others	229,204	3	611,680	11
	7,073,553	100	5,288,180	100
	========	====	=======	====
(ii) Customer deposits				
Non-profit institutions and individuals	5,975,910	57	4,252,662	51
Private enterprises	3,474,025	33	3,361,018	40
Insurance companies	751,968	7	691,302	9
Others	240,543	3	808	-
	10,442,446	100	8,305,790	100
	========	====	=======	====
(iii) Off balance sheet items				
Manufacturing	313,138	10	36,333	12
Wholesale, retail trade and hotels	876,774	28	1,182,610	26
Transport and communications	290,682	9	27,052	15
Agriculture	35,230	2	-	1
Business service	289,210	9	225,677	9
Building, constructions and real estate	421,974	13	386,944	15
Financial service	761,145	24	739,029	4
Foreign trade	96,433	3	69,919	7
Individuals, non-profit making organisations and others	44,866	2	104,084	11
	3,129,452	100	2,771,648	100
	=======	====	=======	====

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

b) Liquidity risk

The Group is exposed to the risk that the Group will encounter difficulty in raising funds to meet commitments associated with customer requirements as and when they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and receivables to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers with the minimum ratio required by the regulator being 20%. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Group ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	2011	2010
At 31 December	34.61%	40.95%
Average for the period	43.09%	38.84%
Maximum for the period	49.40%	45.84%
Minimum for the period	34.61%	26.40%
	=======	=======

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

a) Liquidity risk (Continued)

Residual contractual maturities of financial liabilities

The table below analyses the Group's financial assets and financial liabilities into the relevant maturity Groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Group manages the inherent liquidity risk based on expected undiscounted cash flows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 31 December 2011						
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	524,325	196,998	121,817	7,341	-	850,481
Deposits and balance due from banking institutions	502,056	-	-	-	-	502,056
Government securities	82,221	44,958	1,077,308	661,694	1,244,022	3,110,203
Corporate bonds	-	-	90,514	304,587	168,089	563,190
Loans and receivables to customers	1,167,541	1,074,346	2,357,181	2,829,839	2,079,551	9,508,458
Total financial assets	2,276,143	1,316,302	3,646,820	3,803,461	3,491,662	14,534,388
FINANCIAL LIABILITIES						
Deposits and balance due to banking institutions	50,055	-	-	-	-	50,055
Customer deposits	3,597,434	4,231,463	2,742,562	169,011	-	10,740,470
Total financial liabilities	3,647,489	4,231,463	2,742,562	169,011	-	10,790,525
Net liquidity gap	(1,371,346)	(2,915,161)	904,258	3,634,450	3,491,662	3,743,863
At 31 December 2010						
Total financial assets	3,972,781	1,124,092	1,045,171	2,199,527	1,149,300	9,490,871
Total financial liabilities	2,778,420	3,282,268	2,178,405	126,697	-	8,365,790
Net liquidity gap	1,194,361	(2,158,176)	(1,133,234)	2,072,830	1,149,300	1,125,081

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is therefore considered to be of a stable and long term nature.

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

b) Liquidity risk (Continued)

The previous table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

c) Market risk

The objective of market risk management process is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile as a provider of financial products and services. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

Overall responsibility for management of market risk rests with ALCO. The Group's Risk Compliance Department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

i. Interest rate risk

The Group is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the Group's exposure to changes in interest rates and liquidity.

Interest rates on advances to customers and other risk assets are either pegged to the Group's base lending or the treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

i. Interest rate risk (Continued)

The Assets and Liability Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the end of the reporting period. Included in the table are the Group's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 31 December 2011							
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	850,481	850,481
Deposits and balance due from banking institutions	122,578	-	-	-	-	379,478	502,056
Government securities	92,239	-	162,760	740,192	1,606,091	-	2,601,282
Corporate bonds	-	7,683	45,976	183,900	137,924	-	375,483
Loans and receivables to customers	1,044,441	879,810	1,682,425	1,746,582	1,720,295	-	7,073,553
Total financial assets	1,259,258	887,493	1,891,161	2,670,674	3,464,310	1,229,959	11,402,855
FINANCIAL LIABILITIES							
Deposits and balance due to banking institutions	50,055	-	-	-	-	-	50,055
Customer deposits	1,978,950	4,134,374	2,556,571	154,067	-	1,618,484	10,442,446
Total financial liabilities	2,029,005	4,134,374	2,556,571	154,067	-	1,618,484	10,492,501
Interest sensitivity gap	(769,747)	(3,246,881)	(665,410)	2,516,607	3,464,310	(388,525)	910,354
	========	========	=======	=======	=======	=======	=======
At 31 December 2010							
Total financial assets	3,382,461	988,121	953,605	1,954,152	1,530,085	683,416	9,491,840
Total financial liabilities	780,138	3,282,268	2,178,405	126,697	-	1,998,282	8,365,790
Interest sensitivity gap	2,602,323	(2,294,147)	(1,224,800)	1,827,455	1,530,085	(1,314,866)	1,126,050
	========	========	=======	=======	=======	=======	=======

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

i. Interest rate risk (Continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group.

Interest rate risks – Increase / Decrease of 10% in Net Interest Margin

The interest rate risks sensitivity analysis is based on the following assumptions.

- Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments.
- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to net interest margins.
- The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield

	Amount Sh' 000 31 December 2011	Scenario 1 10% Increase in net interest margin	Scenario 2 10% Decrease in net interest margin
Profit before tax	508,005	583,267	432,743
Adjusted Core Capital	1,531,383	1,582,829	1,477,463
Adjusted Total Capital	1,599,163	1,650,609	1,545,243
Risk Weighted Assets (RWA)	9,085,928	9,084,446	9,084,446
Adjusted Core Capital to RWA	16.85%	17.42%	16.26%
Adjusted total Capital to RWA	17.60%	18.17%	17.01%
	=======	=======	=======

Assuming no management actions, a series of such rises/falls would increase/decrease net interest income for 2011 by Sh 75 million.

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 17.62% and 18.06% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 16.46% and 16.90% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8.00% and 12.00% respectively.

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

ii. Foreign exchange risk

The Group operates wholly within Kenya and its assets and liabilities are carried in local currency. The Group maintains trade with correspondent banks and takes deposits and lends in foreign currencies. The Group's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

The table below summarises the Group's exposure to foreign exchange rate risk as at 31December. Included in the table are the Group's financial instruments at carrying amounts categorised by currency.

Concentrations of currency risk on financial instruments on and off the statement of financial position:

At 31 December 2011

	KES	USD	GBP	EURO	OTHERS	TOTAL
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
FINANCIAL ASSETS						
Cash and balance with Central Bank of Kenya	713,762	106,370	10,536	19,785	28	850,481
Government securities	2,601,282	-	-	-	-	2,601,282
Deposit and balances due from banking institution	19,698	261,262	120,104	89,194	11,798	502,056
Loans and receivables to customers	5,889,924	1,183,628	1	-	-	7,073,553
Corporate bonds	375,483	-	-	-	-	375,483
Total financial assets	9,600,149	1,551,260	130,641	108,979	11,826	11,402,855
FINANCIAL LIABILITIES						
Customer deposits	8,921,951	1,232,516	130,593	157,364	22	10,442,446
Deposit due to banking institutions	50,055	-	-	-	-	50,055
Total financial liabilities	8,972,006	1,232,516	130,593	157,364	22	10,492,501
Net on statement of financial position	628,143	318,744	48	(48,385)	11,804	910,354
Off balance sheet position	1,456,924	887,969	3,293	33,839	4,165	2,386,190
At 31 December 2010						
Total financial assets	8,474,043	851,080	55,116	87,982	22,650	9,490,871
Total financial liabilities	7,615,898	532,454	95,694	121,731	13	8,365,790
Net on statement of financial position	858,145	318,626	(40,578)	(33,749)	22,637	1,125,081
Off balance sheet position	628,545	1,314,024	115,623	138,332	795	2,197,319

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

ii. Foreign exchange risk (Continued)

Foreign exchange risk – Appreciation/Depreciation of Sh against other currencies by 10%

The Foreign Exchange risks sensitivity analysis is based on the following assumptions;

- Foreign exchange exposures represent net currency positions of all currencies other than other than Kenya Shillings.
- The Currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The Base currency in which the Group's business is transacted is Kenya Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2011.

Assuming no management actions, a series of such rises and falls would impact the future earnings and capital as illustrated in the table below;

	31 December 2011 Amount Sh'000	Scenario 1 10% appreciation Sh' 000	Scenario 2 10% depreciation Sh' 000
Profit before tax	508,005	533,586	482,424
Adjusted Core Capital	1,531,383	1,548,053	1,512,240
Adjusted Total Capital	1,599,163	1,615,833	1,580,020
Risk Weighted Assets (RWA)	9,085,928	9,084,446	9,084,446
Adjusted Core Capital to RWA	16.85%	17.04%	16.65%
Adjusted total Capital to RWA	17.60%	17.79%	17.39%
	=======	=======	=======

Assuming no management actions, a series of such appreciation would increase earnings for 2011 by Sh 25 million, while a series of such falls would decrease net interest income for 2011 by Sh 25 million.

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 17.24% and 17.68% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 16.84% and 17.28% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8.00% and 12.00% respectively.

iii. Price risk

The Group is exposed to equity securities price risk as a result of its holdings. Equity investments held are listed and traded on the Nairobi Securities Exchange. Exposure to equity price risk in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The Group has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities.

If equity market indices had increased/ decreased by 10%, with all other variables held constant, and all the Group's equity investments moving according to the historical correlation with the index, the profit before tax for the year would increase/ decrease by Sh Nil (2010: Sh 803,000).

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

iv. Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
Treasury bonds	900,237	-	-	900,237
Total financial liabilities	-	-	-	-
Net position	900,237	-	-	900,237
At 31 December 2010				
Equity investments - quoted	8,028	-	-	8,028
Treasury bonds	1,603,483	-	-	1,603,483
Total financial assets	1,611,511	-	-	1,611,511
Total financial liabilities	-	-	-	-
Net position	1,611,511	-	-	1,611,511

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because their carrying amounts are a reasonable approximation of their fair values.

3. CAPITAL MANAGEMENT

Regulatory capital

Banking

The Central Bank of Kenya sets and monitors capital requirements for the Group as a whole.

In implementing current capital requirements, the Central Bank of Kenya requires the bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The bank calculates requirements for market risk in its trading portfolios based upon the bank's VaR models and uses its internal gradings as the basis for risk weightings for credit risk.

The bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, and retained earnings, after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities and collective impairment allowances. The minimum requirement 12%.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In implementing current capital requirements, the Central Bank of Kenya requires each bank to maintain;

- A minimum level of regulatory capital of Shs 750 million (2010: Shs 500 million).
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 8%.
- Core capital of not less than 8% of total deposit liabilities.
- Supplementary capital of not less than 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.

The Central Bank of Kenya amended the Banking Act in 2010 to require banks to increase their core capital as follows:

Compliance date	Minimum core capital
31 December 2010	500 million
31 December 2011	700 million
31 December 2012	1,000 million

The Group has complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.

3. CAPITAL MANAGEMENT (continued)

Regulatory capital (Continued)

Banking (Continued)

The bank's regulatory capital position at 31 December was as follows:

	2011 Shs'000	2010 Shs'000
Tier 1 capital		
Ordinary share capital	1,050,000	1,050,000
Retained earnings	658,865	381,105
Investment in associate	(177,482)	(93,566)
Total	1,531,383	1,337,539
Tier 2 capital		
Collective allowances for impairment	67,780	56,148
Total regulatory capital	1,599,163	1,393,687
Risk-weighted assets (page 42)		
On balance sheet items	8,037,877	6,182,389
Off balance sheet items	1,048,051	741,993
Retail bank, corporate bank and central treasury	9,085,928	6,924,382
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	17.60%	20.13%
Total tier 1 capital expressed as a percentage of risk-weighted assets (Minimum requirement 8 %)	16.85%	19.32%

3. CAPITAL MANAGEMENT (continued)

Regulatory capital (Continued)

The risk weighted assets are as follows:

	2011			2010		
ON - BALANCE SHEET ASSETS	AMOUNT	WEIGHT	RISK WEIGHTED	AMOUNT	WEIGHT	RISK WEIGHTED
	(Shs. `000)		(Shs.`000')	(Shs. `000)		(Shs.`000')
Cash (including foreign notes and coins)	167,704	0	-	144,242	0	-
Balances with Central Bank of Kenya	682,773	0	-	530,173	0	-
Treasury bills	-	0	-	188,656	0	-
Kenya treasury bonds	2,601,282	0	-	2,203,440	0	-
Deposits and balances due from local institutions	89,542	0.2	17,908	448,761	0.2	89,752
Deposits and balances due from foreign institutions.	405,080	0.2	81,016	296,228	0.2	59,246
Lending fully secured by cash	283,642	0	-	250,535	0	-
Loans and receivables Secured by residential property	675,839	0.5	337,920	402,270	0.5	201,135
Other Loans and receivables (net of provisions)	6,114,072	1.0	6,114,072	4,635,375	1.0	4,635,375
Corporate bonds	375,483	1.0	375,483	375,358	1.0	375,358
Equity investment	-	1.0	-	8,028	1.0	8,028
Investment in subsidiary	217,850	1.0	217,850	217,850	1.0	217,850
Investment in associate	177,482	1.0	177,482	93,566	1.0	93,566
Fixed Assets (net of depreciation)	428,313	1.0	428,313	377,181	1.0	377,181
Intangible assets	24,911	1.0	24,911	23,901	1.0	23,901
Amounts due from Group companies	8,390	1.0	8,390	3,124	1.0	3,124
Other assets	237,652	1.0	237,652	97,873	1.0	97,873
Tax recoverable	16,880	1.0	16,880	-	1.0	-
TOTAL	12,506,895		8,037,877	10,296,561		6,182,389
	========		========	========		========
OFF BALANCE SHEET ASSETS						
Local bank	9,323	0.2	1,865	8,776	0.2	1,755
Foreign banks and foreign government	1,343	0.2	267	2,711	0.2	542
Others	1,045,919	1.0	1,045,919	739,696	1.0	739,696
TOTAL	1,056,585		1,048,051	751,183		741,993
	========		========	=======		======

3. CAPITAL MANAGEMENT (continued)

Regulatory capital (Continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk and Compliance and Credit, and is subject to review by the Credit Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the bank's longer term strategic objectives. The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Brokerage

Stock brokerage entities in Kenya are governed by the Capital Markets Act and as such are subject to solvency regulations which specify the minimum amount and type of capital that must be held. The company manages capital in accordance with these rules. The Capital Markets (Licensing Requirements) (General) Regulations, 2002 contains the following regulations relevant to ABC Capital Limited:

- The level of paid-up share capital for a stockbroker shall not be financial below Shs 50,000,000 at any time during the license period. The company maintained capital well above the minimum requirement.
- The minimum paid up share capital shall always be unimpaired and shall not be advanced to the directors or associates of the stockbroker. No such advances were issued and neither did the share capital suffer any impairment.
- The working capital shall not be below twenty percent of the prescribed minimum shareholders' funds or three times the average monthly operating costs whichever is higher. This was fully complied with in the period.
- Unsecured advances, loans and other amounts to directors or associates shall in aggregate not exceed ten percent of the prescribed minimum shareholders funds at any time provided that such loans are with respect to any amount in excess of the minimum paid up capital. No such advances were issued.
- The ratio of the stockbroker's bank overdraft to the paid-up capital shall not exceed twenty percent at any time. The company does not have any bank overdrafts.

3. CAPITAL MANAGEMENT (continued)

Brokerage (Continued)

	2011	2010
	Sh' 000	Sh'000
Minimum prescribed capital	50,000	50,000
	=========	========
Shareholders' funds		
Share capital	90,000	90,000
Share premium	100	100
Revaluation reserve	201,000	201,000
Capital reserve	15,000	15,000
Accumulated deficit	(14,260)	(8,425)
	291,840	297,675
	==========	=========
Working capital		
Current assets	53,242	63,834
Current liabilities	(28,142)	(28,467)
	25,100	35,367
	=========	=========
Total expenses	25,949	35,120
	=========	========
Average monthly expenses	2,162	2,928
	=====	======
20% of minimum shareholders' funds	10,000	10,000
	=====	======

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY.

In the process of applying the Group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(i) Critical accounting judgements in applying the Group's accounting policies

Impairment losses on loans and receivables

The Group reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held -to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY. (Continued)

Held -to-maturity investments(continued)

In the process of applying the Group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(ii) Critical accounting judgements in applying the Group's accounting policies

Impairment losses on loans and receivables

The Group reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held -to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

5. INTEREST INCOME	2011 Sh'000	2010 Sh'000
Loans and receivables	949,467	791,137
Government securities – held to maturity	136,366	140,144
Government securities – available for sale	129,515	68,325
Corporate bonds – held to maturity	45,975	49,380
Deposits and placements with banking institutions	5,691	6,348
	1,267,014	1,055,334

6 INTEREST EXPENSE

Customer deposits	498,809	352,733
Deposits and placements from banking institutions	14,485	8,108
	513,294	360,841

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

		ABC GROUP 2011 Sh'000	ABC GROUP 2010 Sh'000
7.	**OTHER OPERATING INCOME**		
	Gain on disposal of government securities	32,418	127,113
	Realised loss on sale of available for sale Investments (note 16)	(17,697)	-
	Cumulative gain reclassified from equity on disposal of available for sale investments (note 16)	30,088	-
	Rental income	551	758
	Dividend income	371	249
	Brokerage commission	10,095	-
	Gain on disposal of property and equipment	2,097	-
	Miscellaneous income	30,128	4,227
		88,051	132,347
8.	**OPERATING EXPENSES**		
	Staff costs (note 9)	350,765	286,880
	Depreciation of property and equipment (note 22)	26,608	26,093
	Amortisation of intangible assets (note 23)	6,681	6,208
	Auditors'remuneration - parent	2,756	2,297
	- subsidiary	281	255
	Contribution to deposit protection fund	11,417	9,019
	Directors' emoluments - fees	3,980	3,470
	- other	19,200	12,000
	Operating lease rentals	42,732	50,059
	Advertising costs	31,951	45,003
	Communication	28,372	31,517
	Printing and stationery	10,416	8,044
	Computer and software maintenance	10,246	10,261
	Travelling and vehicle running expenses	18,500	9,010
	Legal and professional fees	7,095	7,805
	Loss on revaluation of equity investments (note 19)	-	914
	Security	20,755	14,786
	Insurance	8,438	3,639
	Bank charges	9,859	17,114
	Office expenses	28,140	28,308
	Other expenses	75,822	28,813
		714,014	601,495
9.	**STAFF COSTS**		
	Salaries and allowances	293,509	257,652
	Staff training	6,067	2,819
	NSSF contribution	486	474
	Pension contribution	6,746	6,398
	Leave pay provision	7,473	2,192
	Medical expense	10,372	6,791
	Other	26,112	10,554
		350,765	286,880

ABC GROUP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

	2010 Sh''000	2011 Sh''000
10. TAXATION		
(a)Taxation expense:		
Income tax based on taxable profit for the year at 30%	145,693	136,599
Deferred tax credit (note 29)	(7,931)	(957)
Prior year (underprovision)/ overprovision – deferred	(647)	4,481
Income charge based on separate income assessment	331	-
Prior year underprovision- current	593	-
	138,039	140,123
(b)Reconciliation of tax expense to the expected tax based on accounting profit:		
Accounting profit before taxation	508,005	476,689
Tax at 30%	152,402	143,008
Tax effect of expenses not deductible for tax	2,101	6,456
Tax effect of income not subject to tax	(16,410)	(13,822)
Prior year (underprovision)/ overprovision – deferred	(647)	4,481
Prior year underprovision - current	593	-
	138,039	140,123

	GROUP 2011 Sh''000	GROUP 2010 Sh''000	BANK 2011 Sh''000	BANK 2010 Sh''000
(c)Taxation (recoverable)/ payable				
At 1 January	32,576	(12,311)	33,197	(11,688)
Current tax charge for the year	146,024	136,599	145,693	136,599
Paid in the year	(197,755)	(91,712)	(195,770)	(91,714)
Prior year under provision - current	593	-		-
At 31 December	(18,562)	32,576	(16,880)	33,197
Comprising:				
Income tax recoverable	(18,562)	(621)	(16,880)	-
Income tax payable	-	33,197	-	33,197
At 31 December	(18,562)	32,576	(16,880)	33,197

These balances receivable and payable have not been offset in the statement of financial position as the Group does not have a legal right of offset.

11. PROFIT FOR THE YEAR

A profit after taxation of Sh 373,392,000 (2010: Sh 342,228,000) has been dealt with in the separate financial statements of the parent company, African Banking Corporation Limited.

12. DIVIDENDS

An interim dividend of Sh 0.80 per share (2010 - Nil) on 105,000,000 shares (2010 – Nil shares) was paid during the year amounting to Sh 84,000,000 (2010 – Nil).

13. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to shareholders by the number of ordinary shares in issue during the year.

	2011	2010
Earnings		
Earnings for purposes of basic and diluted earnings per share (Sh"000)	371,001	336,120
	======	=======
Number of shares		
Weighted average number of ordinary shares (thousands)	105,000	105,000
	======	=======
Earnings per share		
Basic and diluted (Sh)	3.53	3.20
	======	=======

The diluted earnings per share is the same as the basic earnings per share as there were no potentially dilutive shares as at 31 December 2011 or 31 December 2010.

14 . CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP 2011 Sh.000	GROUP 2010 Sh.000	BANK 2011 Sh.000	BANKspain 2010 Sh.000
Cash in hand	167,708	144,246	167,704	144,242
Balances with Central Bank of Kenya				
- Cash reserve ratio requirement	497,569	347,129	497,569	347,129
- Other . available for use by the bank	185,204	183,044	185,204	183,044
	850,481	674,419	850,477	674,415
	======	=======	======	=======

The cash reserve ratio requirement is non interest bearing and is based on the customer deposits with the bank as adjusted by the Central Bank of Kenya requirements. As at 31 December 2011 the cash reserve ratio requirement was 5.25% (2010: 4.5%) of all customer deposits. These funds are not available for the day to day operations of the Group.

15 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	GROUP 2011 Sh"000	GROUP 2010 Sh"000	BANK 2011 Sh"000	BANK 2010 Sh"000
Deposits with banking institutions	129,059	218,800	129,059	210,999
Balances with banking institutions	373,001	533,990	365,563	533,990
	502,060	752,790	494,622	744,989
	=====	======	========	=========

The weighted average effective interest rate at 31 December 2011 for deposits due from banking institutions in Kenya was 3.5% (2010 – 3%) and 1.5% for deposits due from banking institutions outside Kenya (2010 – 0.1%).

16. GOVERNMENT SECURITIES

GROUP AND BANK

(i) HELD TO MATURITY

	2011 Sh''000	2010 Sh''000
(a) Treasury bills at amortised cost		
Maturing within 90 days of the end of the reporting period		
Face value	-	190,000
Less: unearned discount	-	(1,344)
	-	188,656
(b) Treasury bonds at amortised cost		
Maturing within 1 year	-	-
Maturing after 1 year but within 5 years	595,201	-
Maturing after 5 years	1,105,844	599,957
	1,701,045	599,957

(ii) AVAILABLE FOR SALE

	2011 Sh''000	2010 Sh''000
Treasury bonds available for sale		
At 1 January 2011	1,603,483	-
Purchases	-	1,460,165
Disposals	(515,458)	-
Fair value (loss)/ gain	(187,788)	143,318
At 31 December 2011	900,237	1,603,483

The movement s for the disposal during the year was as follows:

	2011 Sh''000	2010 Sh''000
Cost	485,370	-
Proceeds	497,761	-
Gain on disposal of available for sale treasury bonds	12,391	-
Cumulative gain reclassified from fair value reserve on disposal (now realised)	30,088	-
Loss during the year (note 5)	(17,697)	-

16. GOVERNMENT SECURITIES (Continued)

The total investment in government securities at the end of the reporting period was as follows:

	2011	2010
	Sh''000	Sh''000
Treasury bills at amortised cost	-	188,656
Treasury bonds at amortised cost	1,701,045	599,957
Treasury bonds available for sale	900,237	1,603,483
	2,601,282	2,392,096

Treasury bills and bonds are debt securities issued by the Government of Kenya and are classified as held to maturity and available for sale. The weighted average effective interest rate on treasury bills at 31 December 2011 was 5.43% (2010 – 6.90%) and the rate for the treasury bonds was 9.3% (2010 – 9.58%).

17. CORPORATE BONDS – HELD TO MATURITY

GROUP AND BANK

	2011	2010
	Sh''000	Sh''000
Maturing after 1 year but within 5 years	237,559	-
Maturing after 5 years – At amortised cost	137,924	375,358
	375,483	375,358

The weighted average effective interest rate on the corporate bond as at 31 December 2011 was 12.5% (2010 – 12.5%).

18. LOANS AND RECEIVABLES

GROUP AND BANK

		2011	2010
		Sh''000	Sh''000
(a)	Loans and receivables	4,537,180	2,995,592
	Bills discounted	326,507	104,101
	Overdrafts	2,377,677	2,393,400
		7,241,364	5,493,093
	Provision for impaired loans and receivables (note 18(d))	(167,811)	(204,913)
		7,073,553	5,288,180

(b) The weighted average effective interest rate on loans and receivables to customers as at 31 December 2011 was 17.8% (2010 – 15.58%). The weighted average effective interest rate on overdrafts as at 31 December 2011 was 18.35% (2010 – 18.45%). The weighted average effective interest rate on bills discounted at 31 December 2011 was 17.10% (2010 – 15.09%).

The interest rate on loans and receivables to customers are either pegged to the bank's base lending rate or the treasury bill rate. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. Included in net advances of Sh 7,073,553,000 (2010 – Sh 5,288,180,000) are loans and receivables amounting to Sh 40,494,000 (2010 – Sh 33,227,000) net of specific provisions, which have been classified as non-performing.

18. LOANS AND RECEIVABLES TO CUSTOMERS –GROUP AND BANK (Continued)

(c) Analysis of gross advances by maturity:

	2011 Sh''000	2010 Sh''000
Maturing within one month	1,044,439	1,196,854
Maturing within 90 days	879,810	799,465
Maturing after 90 days and within one year	1,682,425	931,703
Maturing after one to five years	1,914,393	2,010,301
Over five years	1,720,297	554,770
	7,241,364	5,493,093

The related party transactions and balances are covered under note 35 and concentrations of advances to customers are covered under Financial Risk Management Objectives and Policies in note 2.

(d) Provisions for impaired loans and receivables:

	2011 Sh''000	2010 Sh''000
At 1 January	204,913	178,611
Provisions in the year	11,603	40,427
Written off	(48,705)	(14,125)
At 31 December	167,811	204,913

19 QUOTED EQUITY INVESTMENTS

GROUP AND BANK

At fair value through profit or loss:

At 1 January	8,028	10,938
Additions	1,994	16,876
Disposals	(10,022)	(18,872)
Fair value loss	-	(914)
At 31 December	-	8,028

20 OTHER ASSETS

	GROUP 2011 Sh''000	GROUP 2010 Sh''000	BANK 2011 Sh''000	BANK 2010 Sh''000
Prepayments	38,731	35,343	38,126	31,956
ATM deposits	3,728	3,880	3,728	3,880
Trade receivables	7,277	8,988	-	-
Other	206,281	69,260	195,798	62,037
	256,017	117,471	237,652	97,873

21. DUE FROM RELATED PARTIES

ABC Capital Kenya Limited	-	-	6,779	2,155
ABC Capital Bank Uganda Limited	1,611	969	1,611	969
	1,611	969	8,390	3,124

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

22 (a). PROPERTY AND EQUIPMENT - GROUP

	Buildings	Office renovations	Computers, copiers and faxes	Motor vehicles	Furniture and equipment	Capital work in Progress	Total
	Sh''000	Sh''000	Sh''000	Sh''000	Sh''000	Sh''000	Sh''000
COST							
At 1 January 2010	166,920	20,732	106,841	6,067	149,289	18,235	468,084
Additions	56,680	-	5,494	2,500	4,466	43,840	112,980
At 31 December 2010	223,600	20,732	112,335	8,567	153,755	62,075	581,064
At 1 January 2011	223,600	20,732	112,335	8,567	153,755	62,075	581,064
Additions	-	-	10,449	7,750	6,146	55,004	79,349
Transfers	-	-	-	-	4,473	(6,449)	(1,976)*
Disposals	-	-	-	(4,712)	(191)	-	(4,903)
At 31 December 2011	223,600	20,732	122,784	11,605	164,183	110,630	653,534
DEPRECIATION							
At 1 January 2010	2,226	15,036	73,124	4,385	80,859	-	175,630
Charge for the year	3,622	672	9,692	1,024	11,083	-	26,093
At 31 December 2010	5,848	15,708	82,816	5,409	91,942	-	201,723
At 1 January 2011	5,848	15,708	82,816	5,409	91,942	-	201,723
Charge for the year	4,472	593	9,156	1,949	10,438	-	26,608
Eliminated on disposals	-	-	-	(4,712)	(159)	-	(4,871)
At 31 December 2011	10,320	16,301	91,972	2,646	102,221	-	223,460
NET BOOK VALUE							
At 31 December 2011	213,280	4,431	30,812	8,959	61,962	110,630	430,074
	=======	=======	=======	======	=======	=======	=======
At 31 December 2010	217,752	5,024	29,519	3,158	61,813	62,075	379,341
	=======	=======	=======	======	======	=======	=======

The work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of the head office building in Westlands and the core banking system.

* This represent transfers to intangible asset for computer software to be used in the operations for the bank.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

22 (b). PROPERTY AND EQUIPMENT - BANK

	Buildings	Office renovations	Computers, copiers and faxes	Motor vehicles	Furniture and equipment	Capital work in Progress	Total
	Sh''000	Sh''000	Sh''000	Sh''000	Sh''000	Sh''000	Sh''000
COST							
At 1 January 2010	166,920	20,732	103,759	6,067	147,144	18,234	462,856
Additions	56,680	-	5,032	2,494	4,413	43,839	112,458
At 31 December 2010	223,600	20,732	108,791	8,561	151,557	62,073	575,314
At 1 January 2011	223,600	20,732	108,791	8,561	151,557	62,073	575,314
Additions	-	-	10,449	7,750	6,128	55,004	79,331
Transfers	-	-	-	-	4,473	(6,449)	(1,976)*
Disposals	-	-	-	(4,712)	(191)	-	(4,903)
At 31 December 2011	223,600	20,732	119,240	11,599	161,967	110,628	647,766
DEPRECIATION							
At 1 January 2010	2,226	15,036	70,993	4,385	79,834	-	172,474
Charge for the year	3,622	672	9,394	1,024	10,947	-	25,659
At 31 December 2010	5,848	15,708	80,387	5,409	90,781	-	198,133
At 1 January 2011	5,848	15,708	80,387	5,409	90,781	-	198,133
Charge for the year	4,472	593	8,864	1,949	10,313	-	26,191
Eliminated on Disposal	-	-	-	(4,712)	(159)	-	(4,871)
At 31 December 2011	10,320	16,301	89,251	2,646	100,935	-	219,453
NET BOOK VALUE							
At 31 December 2011	213,280	4,431	29,989	8,953	61,032	110,628	428,313
At 31 December 2010	217,752	5,024	28,404	3,152	60,776	62,073	377,181

The work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of the head office building in Westlands and the core banking system.

* This represent transfers to intangible asset for computer software to be used in the operations for the bank.

23 (a). INTANGIBLE ASSETS - GROUP

	NSE seat	Software development costs	Total
	Sh.000	Sh.000	Sh.000
COST			
At 1 January 2010	251,000	55,115	306,115
Additions	-	3,632	3,632
At 31 December 2010	251,000	58,747	309,747
At 1 January 2011	251,000	58,747	309,747
Additions	-	7,036	7,036
Transfers	-	1,976	1,976
At 31 December 2011	251,000	67,759	318,759
AMORTISATION/IMPAIRMENT			
At 1 January 2010	-	28,181	28,181
Charge for the year	-	5,998	5,998
At 31 December 2010	-	34,179	34,179
At 1 January 2011	-	34,179	34,179
Charge for the year		6,681	6,681
At 31 December 2011	-	40,860	40,860
NET BOOK VALUE			
At 31 December 2011	251,000	26,899	277,899
At 31 December 2010	251,000	24,568	275,568

The Nairobi Securities Exchange (NSE) seat refers to the license held by the Group through ABC Capital Limited. The Group has continued to retain the market value of Sh 251,000,000. This is based on the latest auction price of a similar seat on 31 August 2007. The asset has not incurred any impairment losses subsequent to the valuation.

23 (b). INTANGIBLE ASSETS - BANK

	2011	2010
	Sh''000	Sh''000
COST		
At 1 January	56,648	53,475
Additions	5,037	3,173
Transfers from CWIP	1,976	
At 31 December	63,661	56,648
AMORTISATION/IMPAIRMENT		
At 1 January	32,747	27,190
Charge for the year	6,003	5,557
At 31 December	38,750	32,747
NET BOOK VALUE		
At 31 December	24,911	23,901
	=======	=======

24. INVESTMENT IN ASSOCIATE

The Group owns 40% of the shareholding of ABC Capital Bank Uganda Limited, a company incorporated in Uganda whose principal activity is the provision of banking services within Uganda. The results of this associate have been accounted for using the equity method of accounting in the consolidated financial statements in the current period as this is when significant influence was obtained.

BANK

	2011	2010
	Sh''000	Sh''000
ABC Capital Bank Uganda Limited – at cost	177,482	93,566
	======	=======

24. INVESTMENT IN ASSOCIATE (Continued)

GROUP

The summarised financial information in respect of ABC Capital Bank Limited (Uganda) is set out below:

	2011	2010
	Sh''000	Sh''000
Total assets	627,649	443,315
Total liabilities	(218,531)	(251,546)
Net assets	409,118	191,769
Total net operating income	95,126	41,834
Total profit/ (loss) before taxation for the year	15,761	(24,169)
Taxation	(152)	-
Total profit/ (loss) for the year	15,609	(24,169)
Group' share of profit/ (loss) of associate (40%)	6,244	(9,668)

The movement in the carrying value in the consolidated statement of financial position is as follows:

	Sh''000	Sh''000
At 1 January 2011	83,898	-
Cost of acquisition of interest in associate	-	93,566
Additional investment	83,916	-
Share of results of associate for the year	6,244	(9,668)
At 31 December 2011	174,058	83,898

Goodwill of Sh 7,191,000 has been included in the carrying amount of the investment in accordance with International Accounting Standard (IAS) No 28 Investment in Associates.

25. INVESTMENT IN SUBSIDIARY- BANK

	2011	2010
	Sh'000	Sh'000
At 1 January	217,850	205,850
Additional investment	-	12,000
At 31 December	217,850	217,850

The bank owns 89.3% (2010 – 89.3%) of the share capital of ABC Capital Limited, a stock brokerage company incorporated in Kenya.

26. DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS – GROUP AND BANK

The weighted average effective interest rate at 31 December 2011 for balances due to banking institutions locally was 10.5% (2010: 3%) while that due to banking institutions abroad was 2.2% (2010: 0.1%).

27. CUSTOMER DEPOSITS – GROUP AND BANK

	2011	2010
	Sh'000	Sh'000
Current accounts	2,394,185	1,907,337
Savings accounts	850,683	784,827
Call deposits	273,340	37,572
Fixed depositst	6,707,472	5,416,710
Other	83,201	47,447
	10,308,881	8,193,893
Accrued interest	133,565	111,897
	10,442,446	8,305,790
Analysis of customer deposits by maturity:		
Payable up to one month	3,597,434	2,718,420
Payable within 90 days	4,134,374	3,282,268
Payable after 90 days and within one year	2,556,571	2,178,405
Payable after one to five years	154,067	126,697
	10,442,446	8,305,790

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2011 denominated in local and foreign currencies was 6.31% and 1.13% (2010 – 2.1% and 1%) respectively.

The related party transactions and balances are covered under note 35 and concentrations of customer deposits are covered under Financial Risk Management Objectives and Policies in note 2.

28. OTHER LIABILITIES

	GROUP	GROUP	BANK	BANK
	2011	2010	2011	2010
	Sh'000	Sh'000	Sh'000	Sh'000
Bills payable	388	8,146	388	8,146
Provision for leave pay	14,464	9,491	14,191	9,491
Trade payables	39,310	99,196	20,931	72,703
Other payables and accruals	246,769	124,783	244,850	122,683
	300,931	241,616	280,360	213,023

29. DEFERRED TAX LIABILITY-GROUP AND BANK

The deferred tax (asset)/ liability is attributable to the following items:

	GROUP 2011	GROUP 2010	BANK 2011	BANK 2010
(a)Deferred tax asset:				
Leave pay provision	4,339	2,847	4,257	2,847
Tax losses	7,448	2,731	-	-
Other provision	1,455	1,437	1,456	1,006
	13,242	7,015	5,713	3,853
(b)Deferred tax liability:				
Excess capital allowances over depreciation	(8,235)	(10,586)	(8,827)	(10,586)
Net deferred tax liability	5,007	(3,571)	(3,114)	(6,733)
	=======	=======	=======	=======
(c)Movement in deferred tax liability is as follows:				
At 1 January	(3,571)	(47)	(6,733)	(5,140)
Credit to profit or loss (note 10)	7,931	957	3,568	2,888
Prior year under/ (overprovision)	647	(4,481)	51	(4,481)
At 31 December	5,007	(3,571)	(3,114)	(6,733)
	=======	=======	=======	=======

30. SHARE CAPITAL - GROUP AND BANK

	2011 Sh'000	2010 Sh'000
Authorised:		
110,000,000 ordinary shares of Sh 10 each	1,100,000	1,100,000
	=======	=======
Issued and fully paid		
105,000,000 ordinary shares of Sh 10 each	1,050,000	1,050,000
	=======	========

	Number of Shares '000	Amount Sh'000
Movement of issued and fully paid shares:		
At 1 January 2011	105,000	52,500
Bonus issue	-	52,500
At 31 December 2011	105,000	105,000
	=======	========

31. STATUTORY RESERVE - GROUP AND BANK

	2011	2010
	Sh'000	Sh'000
At 1 January	56,148	5,518
Transfer (to)/ from retained earnings	11,632	50,630
At 31 December	67,780	56,148

Central Bank of Kenya prudential guidelines requires the bank to make an appropriation to a statutory reserve for unforeseeable risks and future losses. The amount transferred is the excess of loan impairment provision computed in accordance with the Central Bank of Kenya prudential guidelines over the provision for impairment of loan and advances arrived at in accordance with IAS 39 on financial instruments.

	2011	2010
32 NON-CONTROLLING INTERESTS – GROUP	Sh'000	Sh'000
At 1 January	32,262	34,261
Effect of change in shareholding	-	(2,445)
Share of (loss)/ profit	(1,035)	446
At 31 December	31,227	32,262

In 2010 the Bank acquired additional share holding in its subsidiary, ABC Capital Limited of 1.3% bringing its holding to 89.3%. The effect of this change has been dealt with as an equity transaction in line with the requirements of IAS 27 (2008) Consolidated and Separate Financial Statements

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	2011	2010
	Sh'000	Sh'000
(a) Reconciliation of profit before taxation to cash generated from operations		
Profit before tax	508,005	476,689
Adjustments for:		
Depreciation on property and equipment	26,608	26,093
Gain on disposal of property and equipment	(2,097)	-
Amortisation of intangible assets	6,681	6,208
Loss on revaluation of equity investment	-	914
Gain on valuation of investments held for trading	(217,876)	143,318
Share of results of associated company	(6,244)	9,668
Profit before working capital changes	315,077	662,890
Movements in:		
Balances with Central Bank of Kenya (cash reserve ratio)	(150,440)	(53,376)
Treasury bonds	(397,842)	(182,930)
Commercial paper	-	51,252
Corporate bonds	(125)	-
Loans and receivables to customers	(1,785,373)	(1,259,757)
Other assets	(138,546)	107,024
Customer deposits	2,136,656	1,125,459
Other liabilities	59,315	50,556
Related party balances	(642)	(969)
Cash generated from operations	38,080	500,149

33 . NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

	2011 Sh'000	2010 Sh'000
(b) Analysis of balances of cash and cash equivalents as shown in the statement of financial position and notes		
Cash on hand	167,708	144,246
Balance with Central Bank of Kenya - other	185,204	183,044
Treasury bills	-	188,656
Deposits and balances due from banking institutions	502,060	752,790
Deposits and balances due to banking institutions	(50,055)	(60,000)
	804,917	1,208,736

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

34. CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS - GROUP AND BANK

(a) Contingent liabilities

	2011 Sh'000	2010 Sh'000
Letters of credit	308,076	599,392
Letters of guarantee	1,397,145	1,127,720
Acceptances	567,897	377,867
Bills in course of collection	95,981	75,249
Others	17,091	17,091
	2,386,190	2,197,319

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the Group to make payments to third parties on production of documents. The amounts are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support the performance of a customer to third parties. The Group will only be required to meet these obligations in the event of the customers' default.

	2011 Sh'000	2010 Sh'000
(b) Capital commitments		
Authorised but not contracted for	351,155	367,000
Authorised and contracted for	71,916	19,969
	423,071	386,969

34. CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL ITEMS-GROUP AND BANK (Continued)

(c) Commitments to extend credit

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Group may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

(d) Operating lease arrangements

The Group as a lessor

Rental income earned during the year was Sh 551,000 (2010 – Sh 758,000). At the end of the reporting period, the Group had contracted with tenants for the following future lease receivables:

	2011	2010
	Sh'000	Sh'000
Within one year	468	468
In the second to fifth year inclusive	521	989
	989	1,457
	======	======

Leases are negotiated for an average term of 5 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months notice to vacate the premises.

The Group as a lessee

The future minimum lease payments under operating leases are as follows:

	2011	2010
	Sh'000	Sh'000
Within 1 year	41,725	37,356
In the second to fifth year inclusive	135,983	106,047
After 5 years	44,613	43,829
	222,321	187,232
	======	=======

The directors are of the view that future net revenues and funding will be sufficient to cover these commitments.

35. RELATED PARTY TRANSACTIONS -GROUP AND BANK

Included in loans and receivables are amounts advanced to certain directors and to companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to associated companies.

The following transactions were carried out with related parties:

	Directors		Related companies	
	2011	2010	2011	2010
	Sh'000	Sh'000	Sh'000	Sh'000
a) Outstanding loans and receivables				
At 1 January	27,393	13,682	55,436	75,478
Advanced during the year	-	27,000	-	15,536
Interest charged	1,997	1,864	9,428	11,511
Repayments during the year	(3,797)	(15,153)	(4,902)	(47,089)
At 31 December	25,593	27,393	59,962	55,436
	=======	=======	=======	=======
Interest earned		1,864		11,511
	=======	=======	=======	=======
b) Deposits				
At 1 January	21,057	16,888	90,235	64,203
	=======	=======	=======	=======
At 31 December	65,670	21,057	74,407	90,235
	=======	=======	=======	=======
Interest paid	340	1,108	2,159	1,830
	=======	=======	=======	=======
c) Contingent liabilities	-	-	105,700	3,350

d) Loans and receivables to management staff

As at 31 December 2011 loans and receivables to management staff amounted to Sh 57,914,000 (2010 – Sh 50,085,000) and the interest earned thereon was Sh 5,240,000 (2010 – Sh 5,028,000).

The loans and receivables to related parties are performing and are fully secured. No provisions have been recognized in respect of the loans and receivables to directors, related parties or staff.

(e) Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2011	2010
	Sh'000	Sh'000
(i) Key management		
Salaries and other short-term employment benefits	104,166	96,910
	=======	=======

35. RELATED PARTY TRANSACTIONS -GROUP AND BANK (Continued)

(e) Key management compensation (Continued)

The remuneration of directors and other members of key management during the year were as follows:

	Sh'000	Sh'000
(ii) Directors' remuneration		
Fees for services as directors	3,980	3,470
Other emoluments	19,200	12,000
	23,180	15,470

36. ASSETS PLEDGED AS SECURITY - GROUP AND BANK

At 31 December 2011, treasury bonds worth Sh 76,257,000 (2010 - nil) were pledged to secure a letter of credit opening facility with a correspondent bank as there were no liabilities outstanding in respect of those assets.

37. COUNTRY OF INCORPORATION

The bank is incorporated in Kenya under the Companies Act and is resident in Kenya.

38. CURRENCY

The financial statements are presented to the nearest Kenya Shillings thousands (Sh'000).

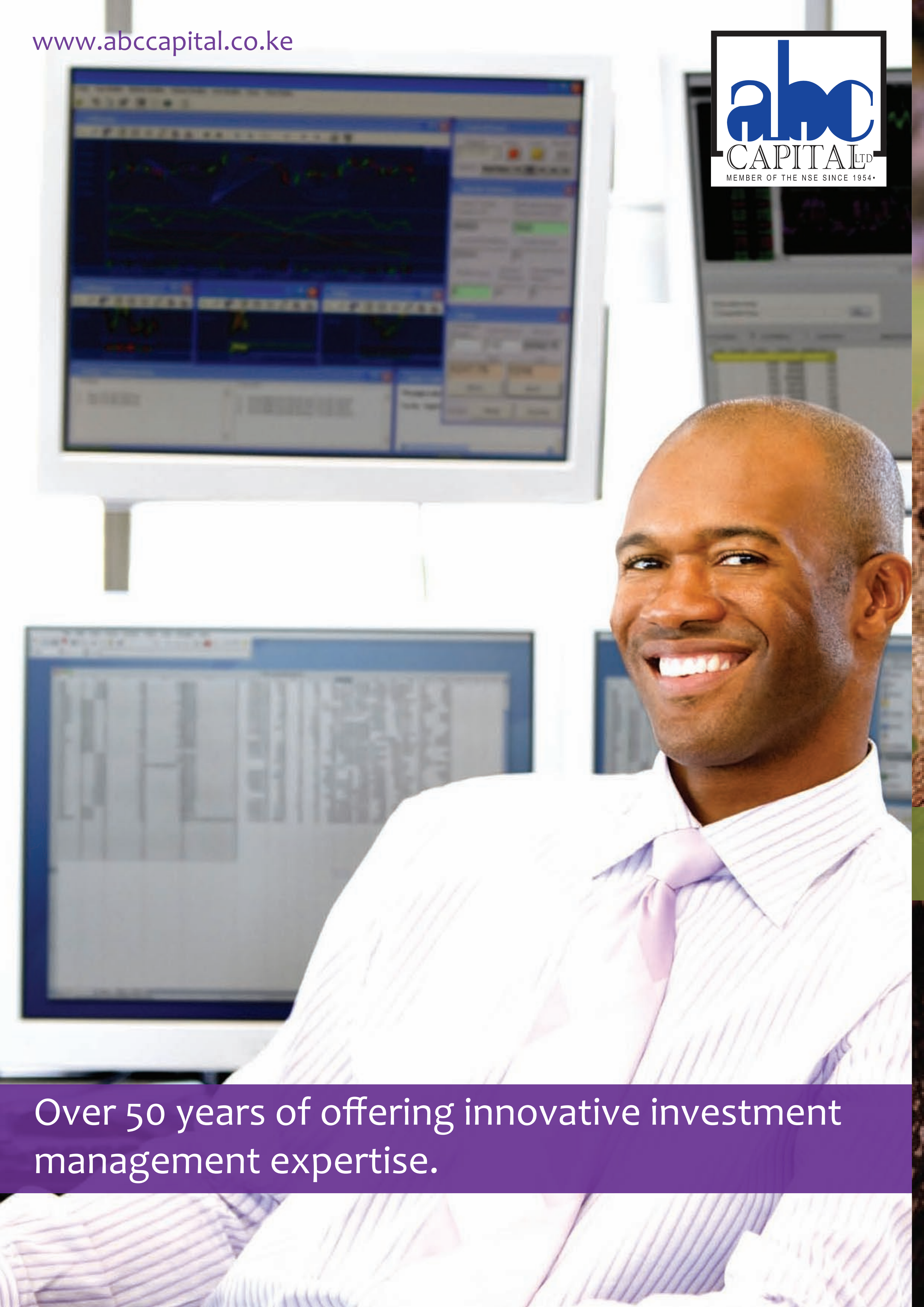
BANK DETAILED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 Sh'000	2010 Sh'000
INCOME		
Interest on loans and receivables	949,467	791,137
Interest on Government securities	265,866	208,469
Interest on placements	5,691	6,348
Other interest income	45,975	47,403
	1,266,999	1,053,357
INTEREST EXPENSE		
Interest on deposits	499,896	352,733
Interest on money markets	14,485	8,108
	514,381	360,841
NET INTEREST INCOME	752,618	692,516
FEES AND COMMISSIONS	240,971	213,693
FOREIGN EXCHANGE TRADING INCOME	144,636	67,179
OTHER OPERATING INCOME (APPENDIX II)	77,437	113,833
OPERATING EXPENSES (APPENDIX II)	(688,593)	(566,374)
IMPAIRMENT LOSS ON LOANS AND RECEIVABLES	(11,603)	(40,427)
PROFIT BEFORE TAXATION	515,466	480,420
TAXATION CHARGE	(142,074)	(138,192)
PROFIT FOR THE YEAR	373,392	342,228

APPENDIX II

BANK DETAILED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
	Sh.000	Sh.000
OTHER OPERATING INCOME		
Rental income	551	758
Miscellaneous income	32,076	4,350
Gain on disposal of government bonds	44,810	108,725
	77,437	113,833
OPERATING EXPENSES		
Staff costs	333,141	268,042
Depreciation of property and equipment	26,191	25,659
Amortisation of intangible assets	6,003	5,767
Auditors. remuneration	3,420	2,362
Contribution to deposit protection fund	11,417	9,019
Directors. emoluments - fees	3,980	3,470
- other	19,200	12,000
Operating lease rentals	40,757	48,127
Advertising costs	31,521	44,302
Communication	28,051	30,859
Printing and stationery	9,856	7,452
Computer and software maintenance	9,988	10,002
Travelling and vehicle running expenses	18,355	8,856
Legal and professional fees	6,817	7,761
Loss on revaluation of equity investments	-	914
Security	20,755	14,786
Insurance	8,098	3,343
Bank charges	9,821	17,051
Office expenses	27,555	27,715
Other expenses	73,667	18,887
	688,593	566,374
STAFF COSTS		
Salaries and allowances	276,420	240,191
Staff training	6,067	2,819
NSSF contribution	454	439
Pension contribution	6,746	6,074
Leave pay provision	7,199	2,192
Medical expense	10,143	6,792
Other	26,112	9,535
	333,141	268,042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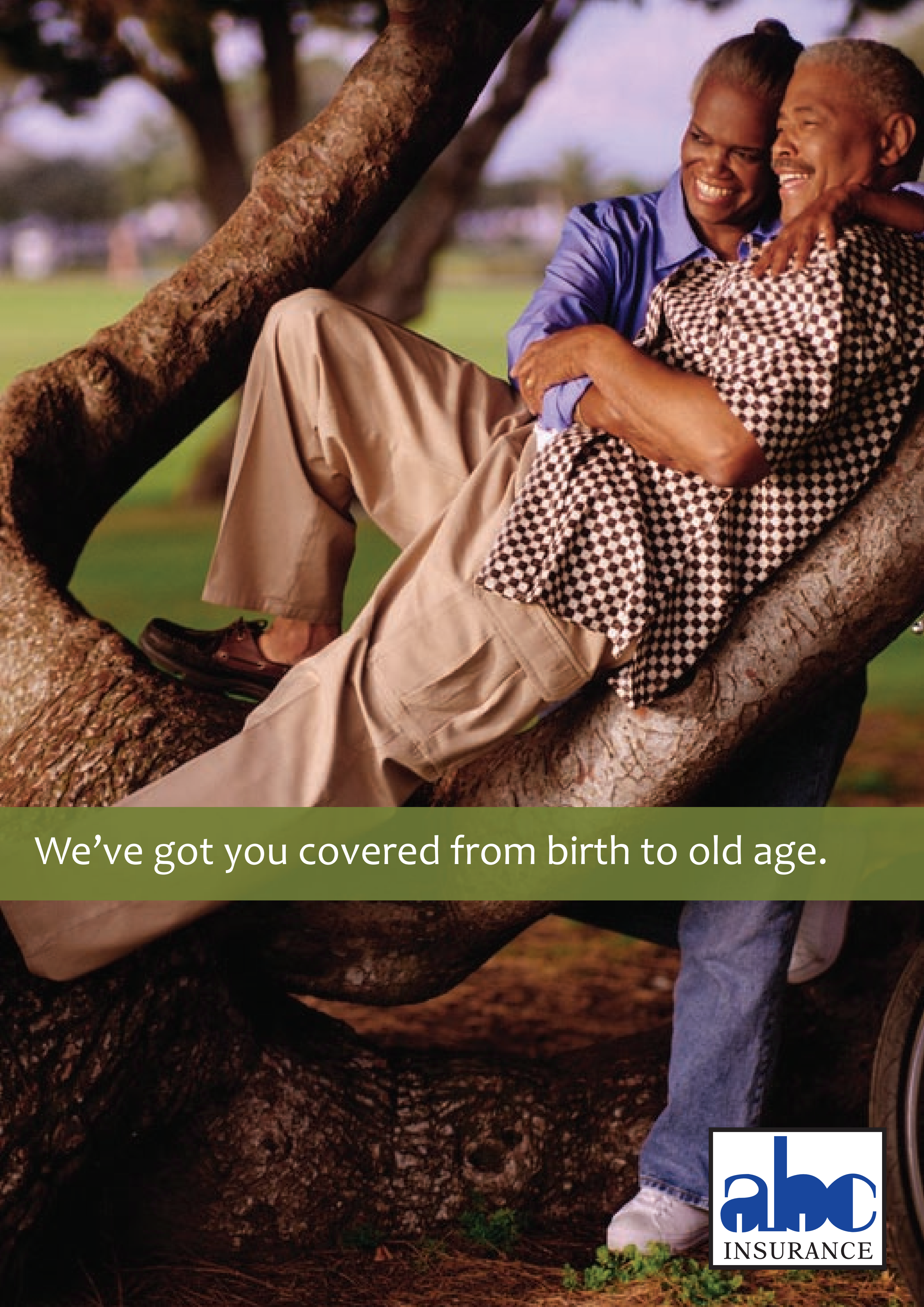
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